

Hospital Sustainability and Act 167 (S.285)

June 13, 2022

Sarah Kinsler, Director of Health Systems Policy

Alena Berube, Strategic Advisor on Health Systems Policy and Finance

Agenda



1. Background on Hospital Sustainability Planning
2. Key Findings from Act 159 Section 4, Hospital Sustainability Report
3. Act 167 (S.285): Overview of Relevant Sections; Workstreams



Background on Hospital Sustainability Planning



- Green Mountain Care Board Requires Hospital Sustainability Planning in 2019
 - After witnessing 5 cumulative years of declining hospital margins, Springfield hospital's bankruptcy in 2019, and taking note of similar trends in rural communities across the country, GMCB required sustainability plans for 6 of 14 hospitals, expanding the effort to all hospitals following COVID-19.
- Legislature passes Act 159 of 2020 requiring GMCB to provide recommendations for improving hospital sustainability
 - The legislature echoed the Board's concern, requiring the Board to deliver a report on "ways to increase the financial sustainability of Vermont hospitals in order to achieve population-based health improvements while maintaining community access to services."

Rural Hospital Closures are Increasing across the U.S.



- Since 2005, **181 rural hospitals have closed** nationally, and since 2010, the rate of closure has only been increasing, with 2020 the highest of any previous year^{1,2}.
- In a study published in Health Affairs in 2020, rural hospitals that closed during the study period had a **median overall profit margin of -3.2% in their final year before closure**³.
- Hospital closures threaten patient **access** to services and materially impact the **local economy**⁴.
- Vermont experienced its own hospital bankruptcy, alarming the Board, Legislators, and hospitals across the state.

1. <https://www.shepscenter.unc.edu/programs-projects/rural-health/rural-hospital-closures/>

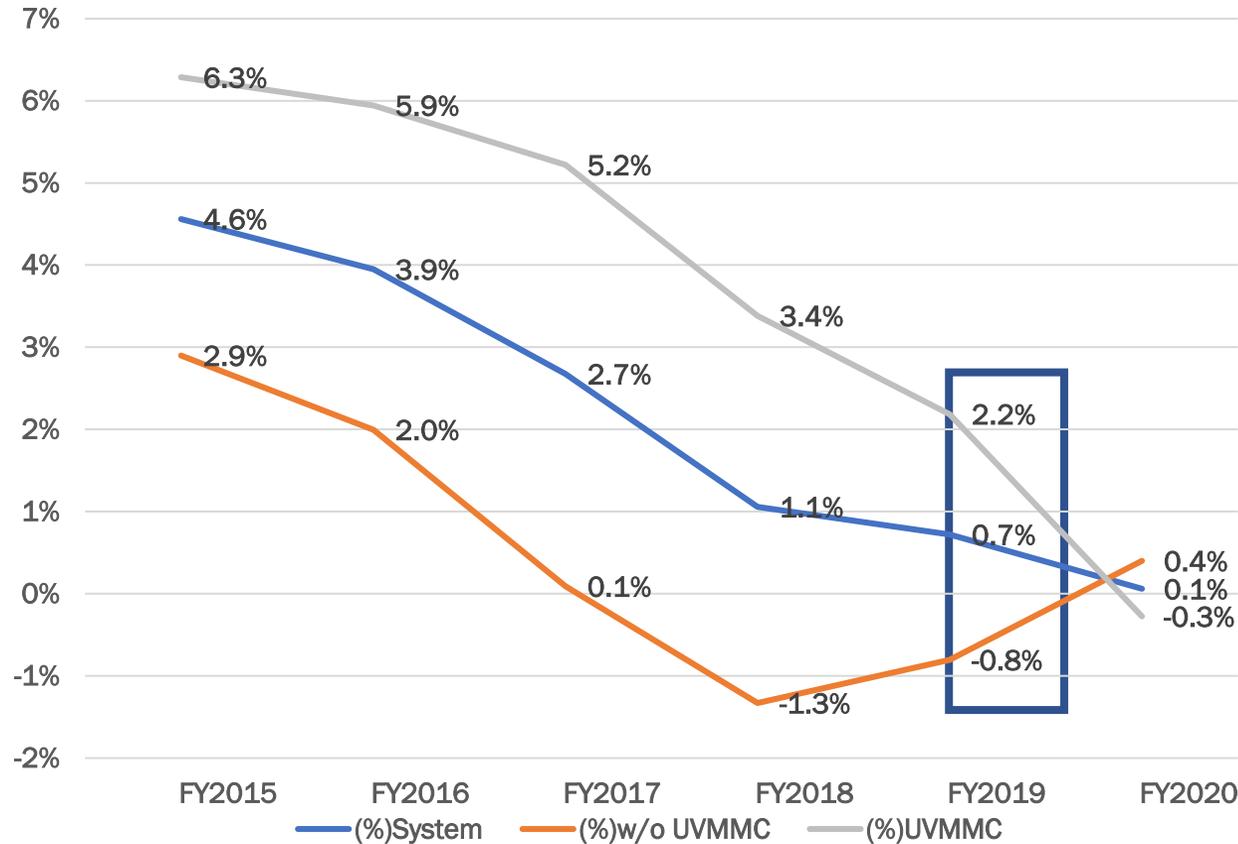
2. <https://onlinelibrary-wiley-com.dartmouth.idm.oclc.org/doi/full/10.1111/jrh.12187>

3. Bai G, Yehia F, Chen W, Anderson GF. Varying Trends in the Financial Viability of US Rural Hospitals, 2011-17. Health Aff (Millwood). 2020;39(6).

4. [Rural Health Services Report](#), Slides 44-47

Vermont Hospital Operating Margins Continue to Decline

Hospital System Operating Margins (%)



Margins across Vermont’s hospital system have steadily declined prior to the pandemic.

Margins are important because they allow hospitals to invest in the future and provide a mechanisms for ensuring facilities and equipment are up to date.

*Note FY2020 includes COVID Relief Funds and Expenses

Declining Operating Margin(%) is a System-Wide Issue



Operating Margin (%) Hospital	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	5 Year Median	5 Year Average	3 Year Median	3 Year Average
Brattleboro Memorial Hospital	2.8%	-0.6%	-3.1%	-2.4%	0.8%	0.6%	▲ -0.6%	▲ -0.9%	▲ 0.6%	▲ -0.3%
Central Vermont Medical Center	2.9%	1.0%	-0.9%	-3.8%	-2.1%	-0.6%	▲ -0.9%	▲ -1.3%	▲ -2.1%	▲ -2.1%
Copley Hospital	6.2%	-0.1%	-0.6%	-3.3%	-3.2%	-3.9%	▲ -3.2%	▲ -2.2%	▲ -3.3%	▲ -3.4%
Gifford Medical Center	2.7%	3.9%	-1.6%	-10.7%	-0.8%	2.5%	▲ -0.8%	▲ -1.3%	▲ -0.8%	▲ -3.0%
Grace Cottage Hospital	-9.8%	-8.0%	-6.9%	-2.9%	-6.7%	1.1%	▲ -6.7%	▲ -4.7%	▲ -2.9%	▲ -2.8%
Mount Ascutney Hospital and Health Center	-2.4%	0.3%	2.7%	1.9%	-0.1%	0.9%	▲ 0.9%	▲ 1.2%	▲ 0.9%	▲ 0.9%
North Country Hospital	3.5%	0.2%	-2.3%	-2.3%	1.9%	3.7%	▲ 0.2%	▲ 0.2%	▲ 1.9%	▲ 1.1%
Northeastern Vermont Regional Hospital	2.2%	2.0%	1.9%	1.7%	1.8%	1.3%	▲ 1.8%	▲ 1.7%	▲ 1.7%	▲ 1.6%
Northwestern Medical Center	9.7%	3.4%	-1.2%	-3.4%	-8.0%	-0.9%	▲ -1.2%	▲ -2.0%	▲ -3.4%	▲ -4.1%
Porter Medical Center	-2.4%	1.9%	2.7%	1.8%	5.2%	4.1%	▲ 2.7%	▲ 3.1%	▲ 4.1%	▲ 3.7%
Rutland Regional Medical Center	1.9%	4.2%	1.6%	0.5%	0.4%	0.2%	▲ 0.5%	▲ 1.4%	▲ 0.4%	▲ 0.4%
Southwestern Vermont Medical Center	3.6%	3.4%	3.7%	4.6%	3.3%	2.8%	▲ 3.4%	▲ 3.5%	▲ 3.3%	▲ 3.5%
Springfield Hospital	3.9%	0.3%	-7.1%	-12.8%	-18.4%	-11.2%	▲ -11.2%	▲ -9.8%	▲ -12.8%	▲ -14.1%
University of Vermont Medical Center	6.3%	5.9%	5.2%	3.4%	2.2%	-0.3%	▲ 3.4%	▲ 3.3%	▲ 2.2%	▲ 1.8%
Total	4.6%	3.9%	2.7%	1.1%	0.7%	0.1%	▲ 1.1%	▲ 1.7%	▲ 0.7%	▲ 0.6%
Median	2.8%	1.4%	-0.7%	-2.3%	0.2%	0.8%				
Flex Monitoring Team Northeast CAH					1.8%					
Flex Monitoring Team U.S. CAH					0.7%					
Fitch Ratings Solutions, Inc Northern New England					1.2%					
Fitch Ratings Solutions, Inc Northeast U.S.					0.8%					

*Note FY2020 includes COVID Relief Funds and Expenses

Why does this matter to Vermonters?



Affordability

In Vermont, hospitals' primary lever to increase operating margin is commercial price, which only exacerbates the existing affordability crisis through its impact on premiums, foregone wages, and out of pocket costs.*

Quality

Hospitals in financial distress “struggle to maintain quality and patient safety and have worse patient outcomes relative to well-resourced hospitals”¹.

Access

Financial distress is a key predictive factor in determining the likelihood of hospital closure, which left unaddressed compromises communities' access to essential services, such as primary care, mental health, and maternal health etc.²

**Employers must often choose to invest more for the similar coverage year over year or reduce benefits.*

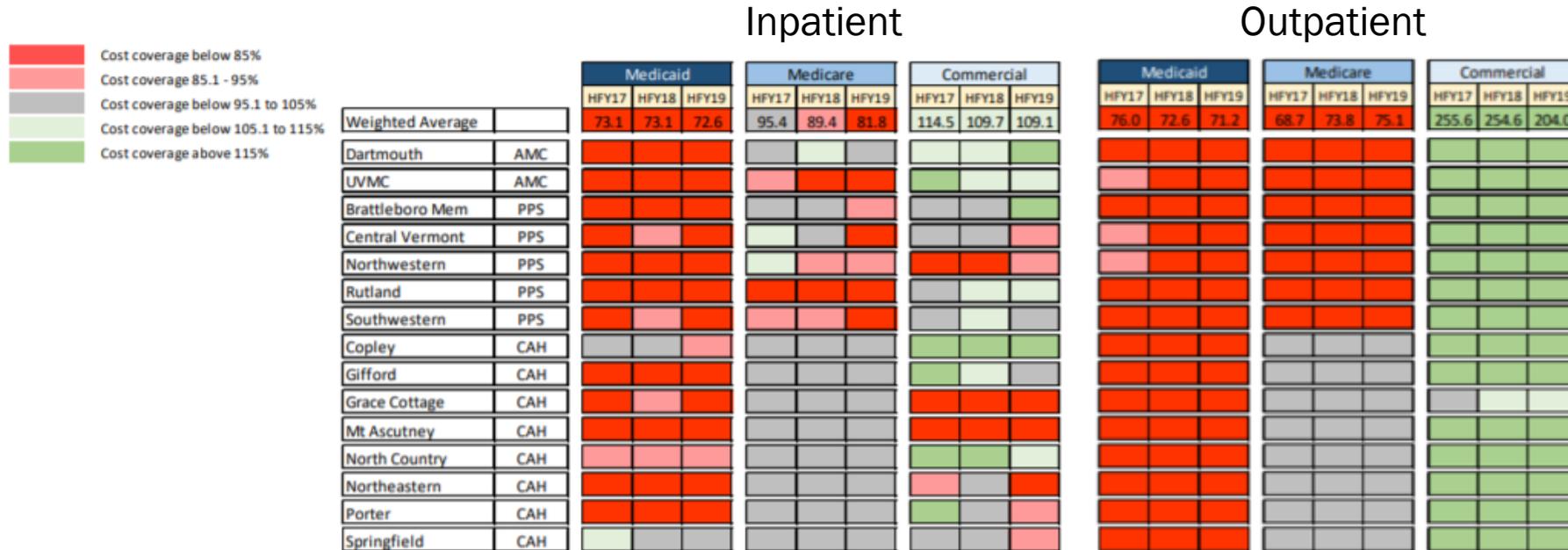
1. Source: Akinleye DD, McNutt LA, Lazariu V, McLaughlin CC. Correlation between hospital finances and quality and safety of patient care. *PLoS One*. 2019;14(8):e0219124. Published 2019 Aug 16. doi:10.1371/journal.pone.0219124
2. Source: Holmes GM, Kaufaman BG, Pink GH. Predicting financial distress and closure in rural hospitals. *The Journal of Rural Health* 2017;33(3): 239-249.

Key Finding #1

Left alone, Vermont hospitals' financial health will continue to decline. This will make health care even less affordable, will erode quality of care over time, and threaten Vermonters' continued access to care in their community.

- The financial health of Vermont's hospitals, as assessed by operating margin, declined over six recent fiscal years (FY2015 to FY2020).
- The cost of delivering care is increasing faster than payments to hospitals for providing services to patients.
- Hospitals in poor financial health...
 - must often rely on commercial rate increases to maintain/increase margins;
 - are often forced to eliminate low margin essential services;
 - are not able to invest in quality improvement and often experience declines in quality as financial health worsens; and
 - are more likely to experience bankruptcy and closure.
- The impacts of hospital financial distress mentioned above disproportionately affect the most vulnerable Vermonters.
- Hospital closures compromise access to essential services, and have been a growing concern among rural hospitals across the U.S.
- While non-operating revenue sources offer some hospitals relief, this is not sustainable.

Cost coverage varies by hospital, payer, and setting

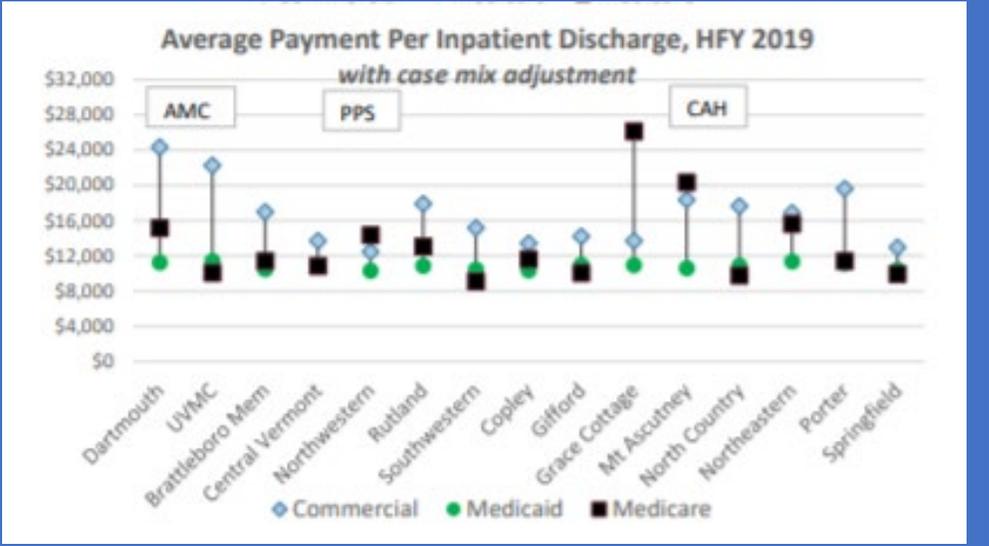


HEALTH MANAGEMENT ASSOCIATES

27

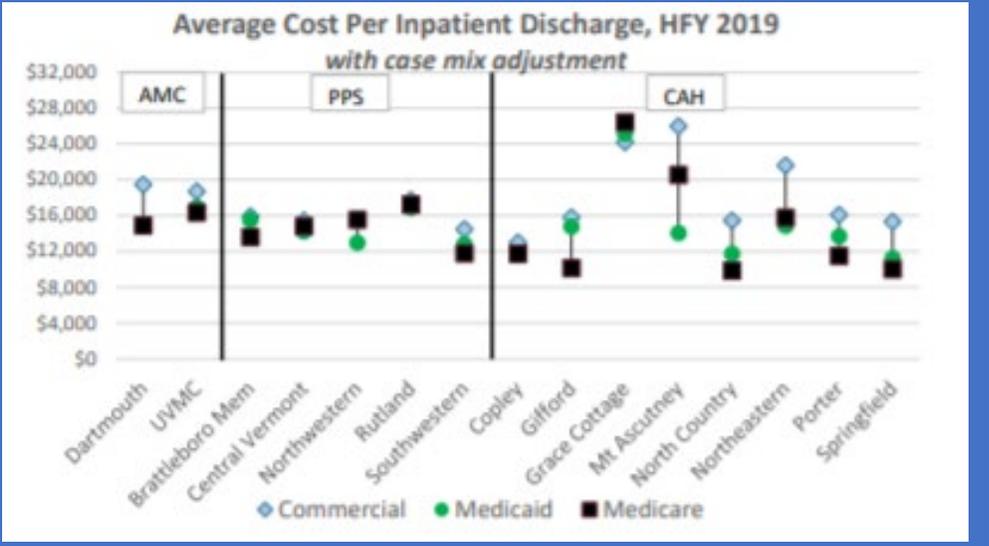
- Medicaid and in many cases, Medicare, do not cover the current costs of delivering care to their patients.
- This puts enormous pressure on hospitals to ensure that commercial payers cover both the cost of delivering care to commercial patients **and** the unpaid costs of delivering care to Medicare and Medicaid patients. This is unsustainable.

Prices



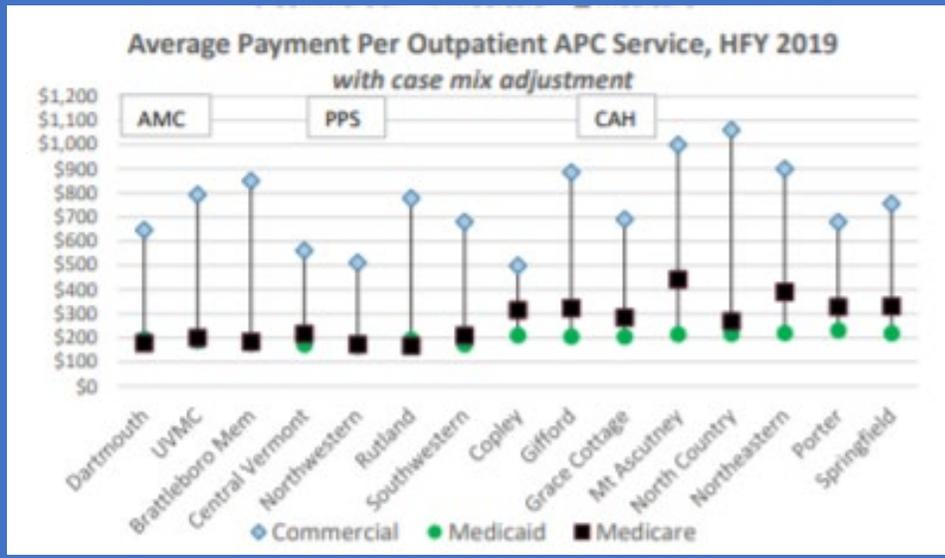
**Inpatient:
Drivers of poor
cost coverage
vary between
hospitals...**

Costs



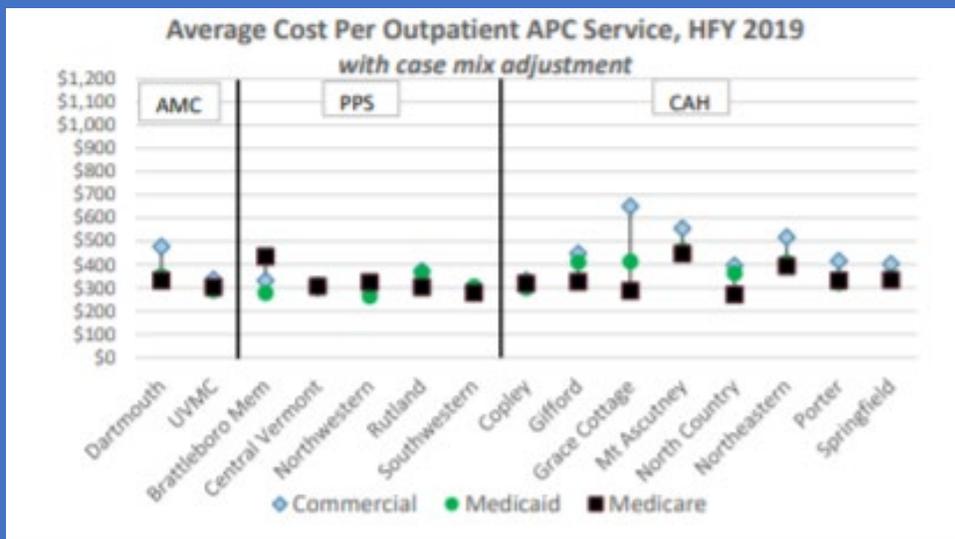
Source: analysis from Burns/Health Management Associates

Prices



**Outpatient:
Drivers of
poor cost
coverage
vary between
hospitals...**

Costs



Source: analysis from Burns/Health Management Associates

Key Finding #2

There is significant variation across hospitals in the extent to which their reimbursements cover their costs of delivering a particular service, even after controlling for case-mix.

- Cost coverage also varies by payer and care settings (inpatient/outpatient).
- These variations could reflect high fixed costs, care delivery inefficiencies, and/or pricing strategies.
- Commercial payments are higher than governmental payments for similar services
- Often, governmental payments are insufficient to cover the current costs of delivering many services to patients.
- Hospitals relying more heavily on revenues from governmentally insured patients are often financially disadvantaged as compared to those with a greater share of their revenue coming from commercially insured patients.
- Governmentally insured patients often have greater social and physical health needs.

Key Finding #3

Hospital price regulation strategies in Vermont have room to evolve in order to more aptly address affordability.

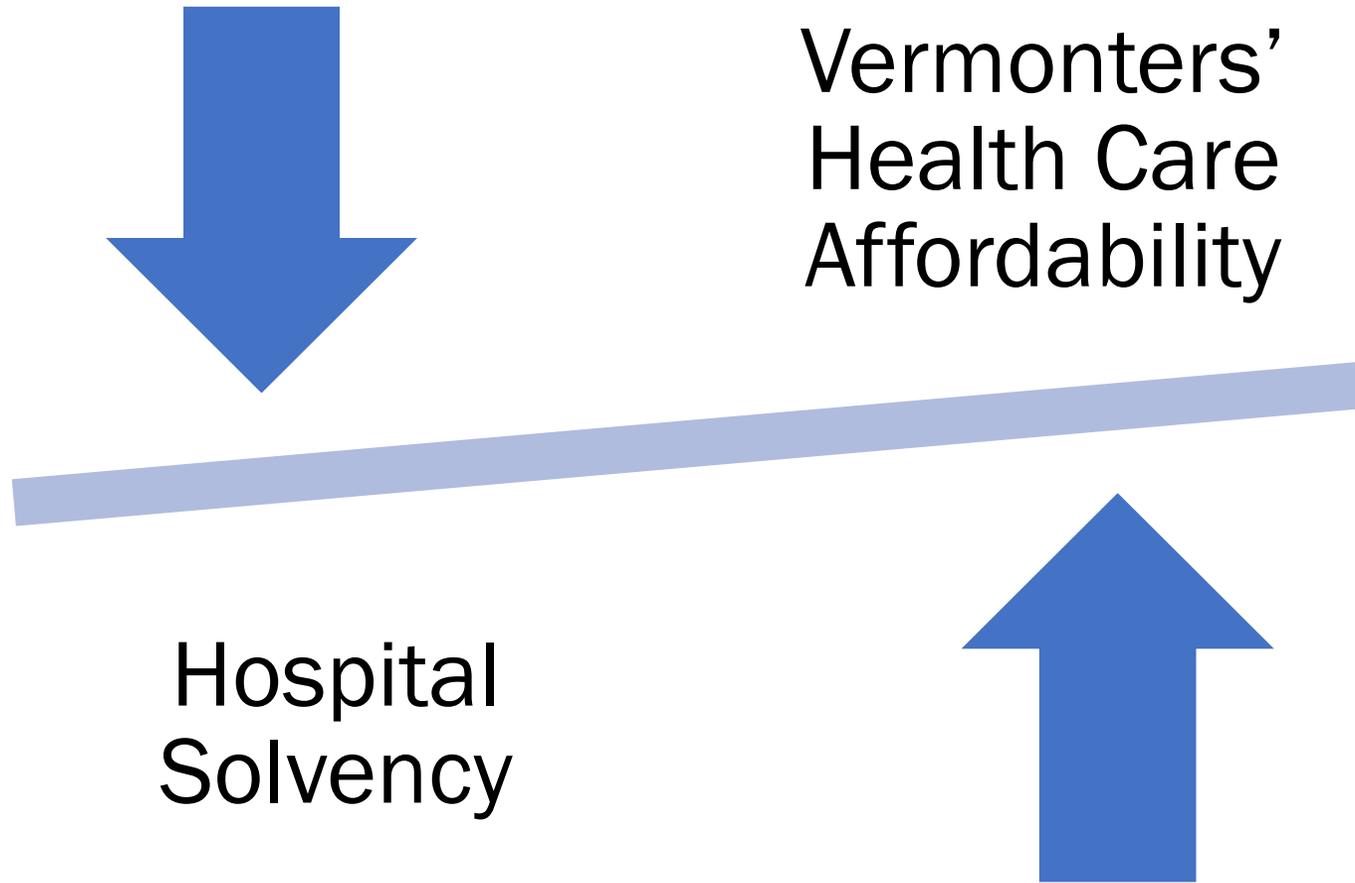
- In Vermont, hospital prices are regulated through the Green Mountain Care Board's review and approval of a hospital's commercial change in charge in the Hospital Budget Review Process.
- There is an inconsistent and sometimes weak relationship between change in charge and negotiated payments by insurers.

Hospital Levers to Balance Revenues & Expenditures



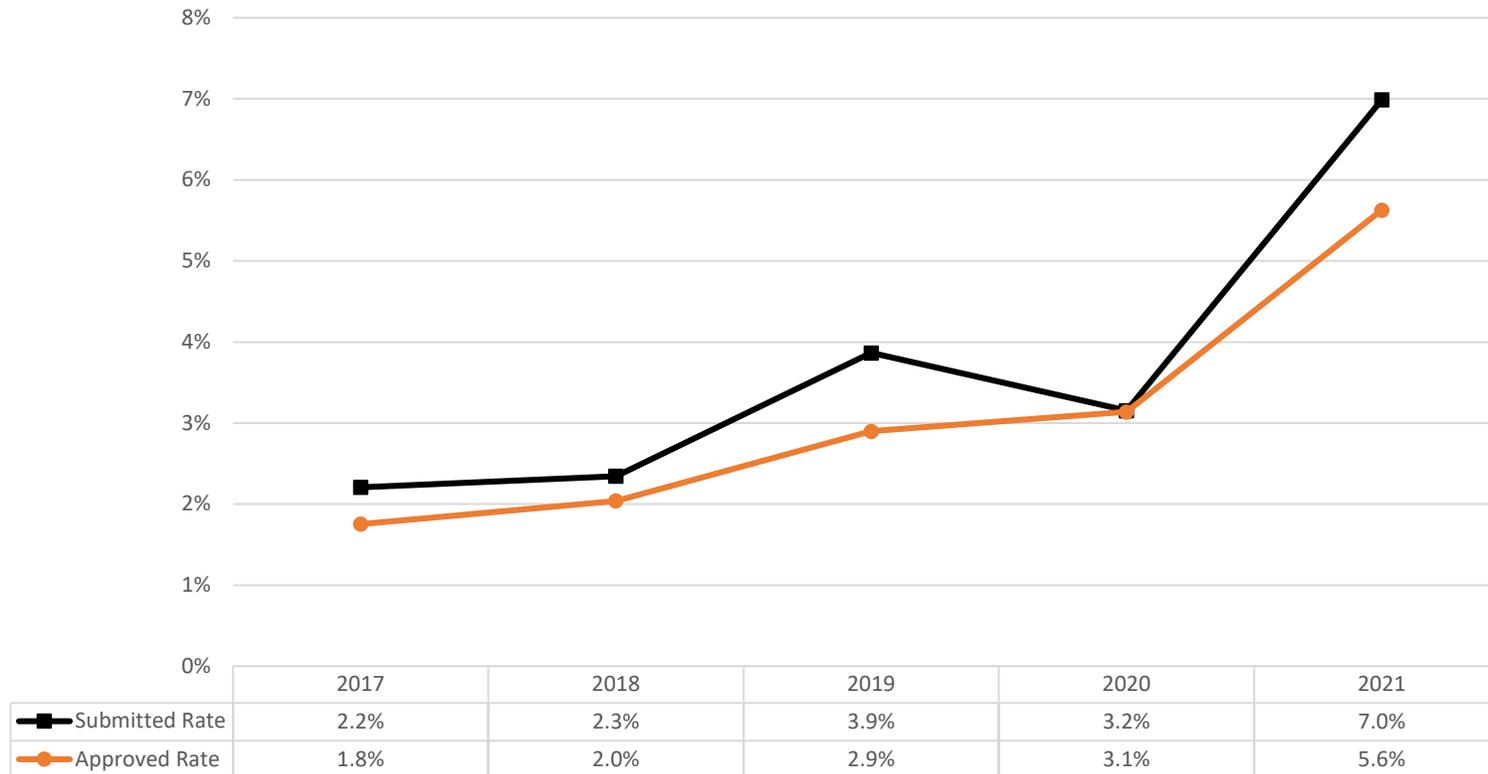
- Increase Commercial Prices
- Reduce Operational Costs
- Increase Volume of Profitable Services

Hospital Prices: The Tension...



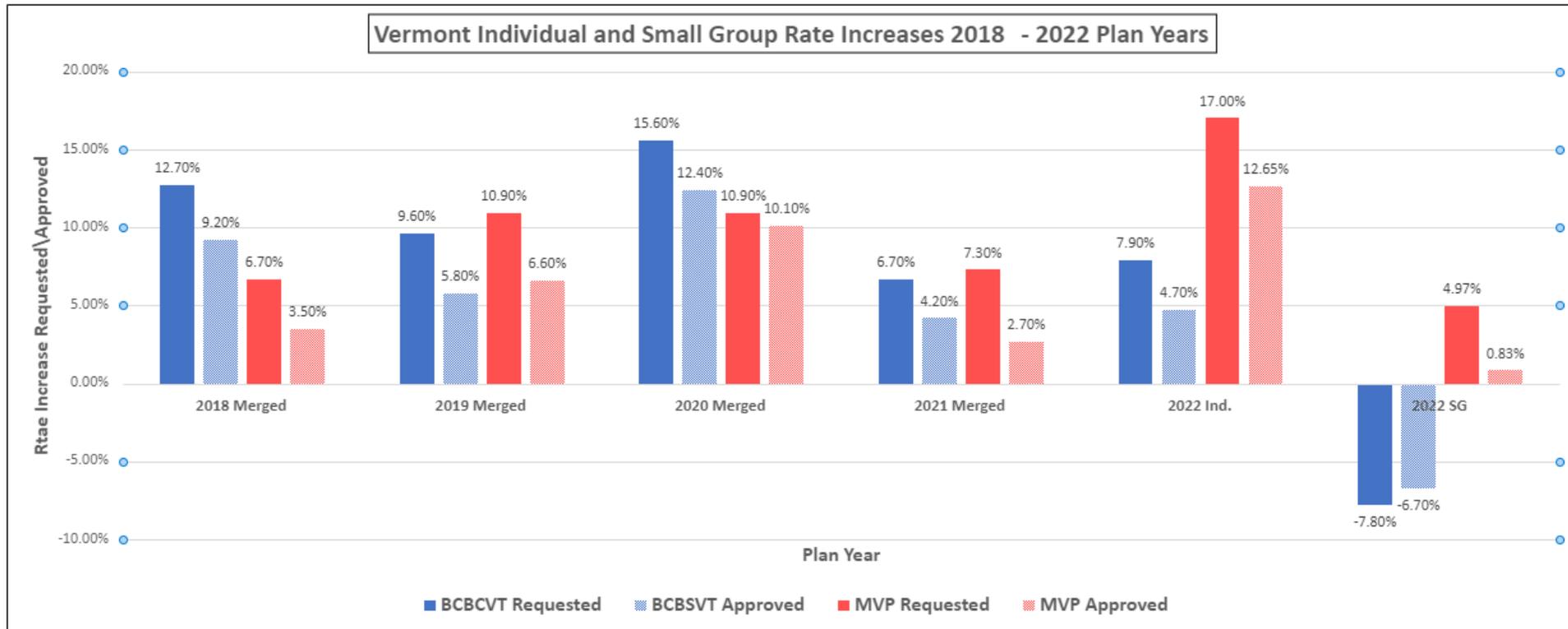
Hospital Commercial Charges

Vermont Hospitals Estimated Weighted Average Change in Charges 2017 to 2021



Estimated Weighted Average for all hospitals is calculated by factoring in each hospital's proportion of gross revenue to the change in charges (rate).

Premium Rate Growth



Commercial rate increases to maintain margins is not affordable nor sustainable



1. Commercial rate increases lead to higher premiums making private health insurance less and less affordable for Vermonters.
 - Over 50% of uninsured Vermonters cite cost as the primary obstacle
 - Between 2014-2018, the proportion of privately insured Vermonters who are underinsured rose from 27% to 40%.
2. There are fewer and fewer commercially insured patients available to cover growing costs, exacerbating the required magnitude of increases.
 - Between 2013-2019, while the Medicaid and Medicare populations *grew* by a combined 21%, the privately insured population *fell* by 10% in VT

Key Finding #4

If we do nothing, commercial prices will likely continue to outpace economic growth, making health care even more unaffordable and potentially compromising access to care.

- Commercial rate growth has created significant affordability problems for employers and for Vermont residents with employer-based coverage.
- Continuing to rely on commercial rates to maintain margin will only exacerbate the affordability crisis, potentially compromising access to care.
- Commercial rate increases are an unsustainable lever to address hospital financial health, due to a declining commercial population in Vermont. At some point, rate increases will be insufficient to keep hospitals open, another risk to Vermonters' continued access to essential services.

Hospital Levers to Balance Revenues & Expenditures



- Increase Commercial Prices
- Reduce Operational Costs
- Increase Volume of Profitable Services

What about reducing operational costs?

- We hear from hospitals about the challenges of cutting operational costs...
- A few reasons for these challenges include:
 - Small rural hospitals struggle to cover the fixed costs of running a hospital, particularly as they face declining populations and care is shifted to the outpatient settings¹
 - Recruitment challenges lead to higher staffing costs (*note*, a majority of a hospital's budget is for staffing)
 - Low volumes threaten hospitals' ability to cover fixed costs
 - Inadequate mental health infrastructure and low reimbursements threaten hospital financial health and compromise patient health
- These challenges will only worsen as plants age and capital investment becomes more expensive, workforce shortages put higher pressure on wages, and volumes continue to shrink due to declining populations and a shift away from inpatient care settings.

1. Source: <https://www.aha.org/system/files/2019-02/rural-report-2019.pdf>

Pre-Covid, Several Vermont Hospitals Faced Low Occupancy Rates & Low Volumes



- According to [Berkeley Research Group's analysis](#):
 - Some small VT hospitals faced low occupancy rates pre-Covid
 - Some hospitals may face excess capacity in the future given Dartmouth's bed expansion and population decline (note, other hospitals may need expanded capacity due to population growth)
 - Low volumes in certain services may increase costs and compromise quality
 - *Centers of Excellence* may be a path forward to increase efficiency, financial sustainability and high-quality care
 - Other VT hospitals could expect capacity constraints, given projected bed need based on changing demographics

There appears to be a mis-match between Vermonters' health needs and how health care resources are distributed across the state.

Key Finding #5

Hospital and health system infrastructure has not kept pace with community health needs and the only way to address both hospital financial sustainability and ensure Vermonters' access to high quality, affordable care is to accelerate delivery system transformation.

- Improving operational efficiency is critical for minimizing wasteful spending, but hospitals will not be able to “cut” their way back to sustainability.
- Balancing hospital financial sustainability and health care affordability is a systemic issue that requires a systems-oriented solution.
- Preliminary analyses suggest that absent COVID, Vermont’s care delivery system is over capacity in some areas and under capacity in others. Future projections based on demographic trends and the impact of DH expansion indicate that post-COVID, the mismatch between need and capacity will widen across the state.
 - Several Vermont hospitals are operating at low occupancy, some in close proximity to one another.
 - Some are operating high-cost service lines with low volumes (e.g., less than 5 ICU beds).
 - Vermont’s health care system lacks sufficient capacity and reimbursement for mental health patients which challenges hospitals’ financial sustainability and operational efficiency.
- Rethinking how care is organized across the state (e.g. regional collaborations and Centers of Excellence) is essential to preserving access and quality as well as efficiently allocating our already strained health care workforce.
- COVID has revealed the ability of our health system to rapidly respond to evolving patient needs (e.g. building a makeshift hospital in a week) and meet patients where they are (e.g. telemedicine).
- Maintaining costly excessive capacity is not necessary, but we must ensure that hospitals have the financial resources required to respond to changing environments.

Hospital Levers to Balance Revenues & Expenditures



Increase Commercial Prices

Reduce Operational Costs
(given current system-wide infrastructure)

Increase Volume of Profitable Services

What about increasing volume at the hospital level?

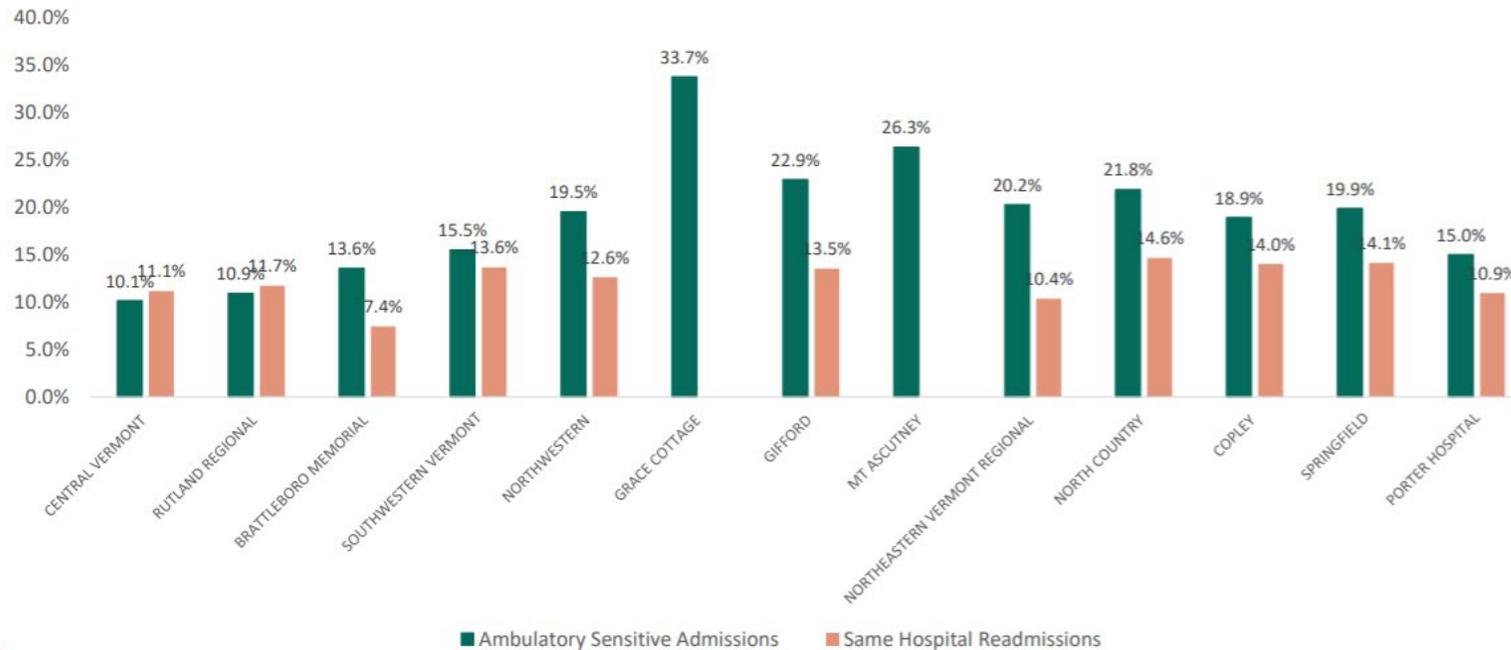


- Increasing **volume may be warranted**, particularly when there are **gaps in access** (e.g. primary care, mental health).
- ...but it could also lead to unnecessary care or avoidable utilization (and higher health care spending).
- The organization and delivery of services should be based on **Vermonters' needs** and which services and care settings will yield the **best possible health outcomes**.
- Health care reform and the shift to value-based care has been precisely focused on this issue, ensuring that **Vermonters receive only the care that they need**, and ensuring that that care is **high-quality**.
- According to works by Mathematica & BRG, Vermont has a number of opportunities to **reduce avoidable utilization**.
- As we work to reduce unnecessary care and avoidable utilization, some **hospitals will see lower occupancy rates** and **greater excess capacity**, likely resulting in a **negative impact to their financial health**.

Under the current payment system (majority fee-for-service), doing the right thing for Vermonters may further harm hospitals' financial health.

In many VT hospitals, 10% to 34% of inpatient revenue is potentially avoidable

Proportion of Revenue in Avoidable Utilization- Inpatient



Hospital Levers to Balance Revenues & Expenditures



Increase Commercial Prices

Reduce Operational Costs

Increase Volume of Profitable Services

Hospitals do not have any viable levers to improve their financial health and guarantee their sustainability.

Support for Value-based Care

“Pre-pandemic there was already a press for a more aggressive shift to risk payment models, and most Medicare spending was predicted to be tied to value by 2025. As COVID-19 has evolved, 49% of surveyed health care executives say they have a higher interest in participating in value-based care”

[The AHA advocates for global budgets to ensure access in rural communities.](#)



“WE NEED TO FIND A WAY TO BRING EVERYONE ALONG. WE CAN’T HAVE FEE-FOR-SERVICE REMAIN A COMFORTABLE PLACE TO STAY.”

CMMI Director Dr. Liz Fowler on
“Strategic Refresh” (4/25/21)

Where are Vermont Hospitals in their transition to Value-based Care?

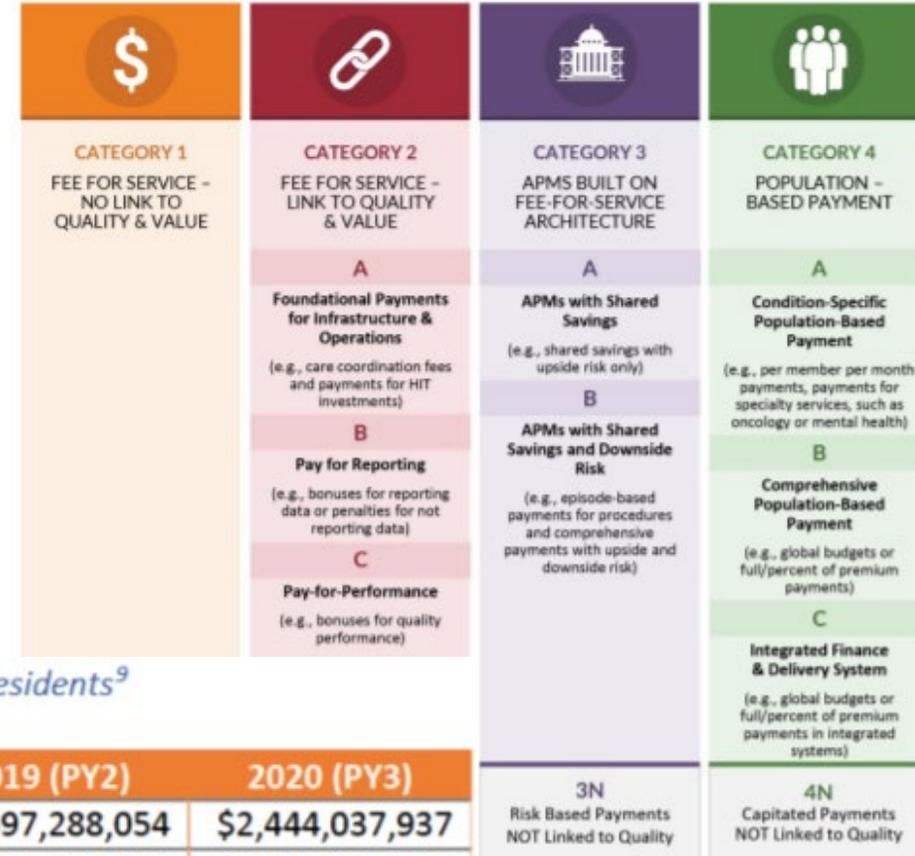


Figure 6: Systemwide Proportion of Value-Based Hospital Revenue from Vermont Residents⁹

	2017 (PY0)	2018 (PY1)	2019 (PY2)	2020 (PY3)
Total Revenue	\$2,378,721,942	\$2,520,075,138	\$2,597,288,054	\$2,444,037,937
Estimated VT Resident Revenue	\$2,234,000,656	\$2,329,290,531	\$2,401,820,237	\$2,238,229,808
Prospective Payments + Other Reform Payments	\$43,510,957	\$231,893,481	\$299,908,013	\$351,471,909
Proportion of Revenue	1.9%	10.0%	12.5%	15.7%

Key Finding #6

Vermont must accelerate its transition from fee-for-service to value-based payments in order to address hospital financial sustainability and ensure Vermonters' access to high-quality affordable care.

- Despite being leaders in their commitment to value-based care, Vermont hospitals are still predominantly paid on a fee-for-service basis
- As long as the majority of Vermont hospitals' revenues come from fee-for-service, they will be constrained by high margin, volume-driven strategies to ensure their financial health.

Quality Improvement & Measurement



While for the first time we have a collated baseline of hospital quality data (BRG analyses October 27, 2021), these data are not reported consistently across Vermont hospitals, nor is there consensus across hospitals as to the most appropriate hospital quality measures and for whom.

In partnership with VPQHC, we are now convening a stakeholder group to establish a hospital quality framework that can be considered within the hospital budget review process.

Key Finding #7

There are opportunities to improve and streamline hospital quality measurement, and some preliminary evidence suggests that in some areas the quality of care being delivered to Vermonters could also be improved.

- For some services, in some Vermont hospitals, volumes may not be sufficient to guarantee the delivery of high-quality care.
- Vermont hospitals' rate of potentially avoidable admissions is above optimal levels, suggesting better care for patients with common chronic conditions is warranted.
- While the baseline quality data aggregated for this report was helpful for highlighting general areas of opportunity, measures of hospital quality are not consistently reported across hospitals and make systematic review of hospital quality data difficult, if not impossible.

Key Finding #8/9

The stress that COVID-19 has put on our health system has highlighted not only the existing failures (e.g. fee-for-service) but also its strengths, particularly in its ability to quickly pivot to meet public health needs (e.g., build a makeshift hospital in a week, scale up ICU beds, accelerate widespread telemedicine access, etc.).

- Relying on volume for reimbursement threatens financial health of hospitals
- In order to sustain a diversity of health care during a public health crisis requires stable and predictable funding streams.

Analysis of long-term trends must focus on years prior to the pandemic, with a recognition that data and analyses may need to be updated as this pandemic becomes endemic.

- While it is evident that the pandemic has shifted how care is delivered and consumed, it is unclear how many of these trends are temporary or permanent.
- Care patterns from 2020, 2021, and potentially 2022 are skewed by disruption and pent-up demand from the pandemic.

Report Recommendations

1. Accelerate Shift to Value-based Payment & Delivery
 1. Hospital Global Payment
 2. Community-led Delivery System Transformation
2. Incorporate Quality into the Hospital Budget Process
3. Ensure Equitable Medicaid Payments

Where do we go from here?

Act 167 (S. 285) Work Streams



1. Community and Provider Engagement, *in collaboration with AHS*
2. Value-Based Payments, *in collaboration with AHS*
3. Regulatory Redesign, *GMCB*
4. All-Payer Model Development, *led by AHS in collab with GMCB*

Disclaimer: S.285 was signed into law on June 1. GMCB and AHS are collaborating closely to develop more complete plans for these bodies of work, and expect that these categories may evolve.

NOTE – Plans in development by GMCB and AHS and likely to evolve.

Act 167 (S.285) Work Streams

Community and Provider Engagement



Section 2(a):

The Green Mountain Care Board, in collaboration with the Director of Health Care Reform in the Agency of Human Services, shall develop and conduct a data-informed, patient-focused, community-inclusive engagement process for Vermont's hospitals to reduce inefficiencies, lower costs, improve population health outcomes, reduce health inequities, and increase access to essential services while maintaining sufficient capacity for emergency management.

NOTE – Plans in development by GMCB and AHS and likely to evolve.

Act 167 (S.285) Work Streams

Value-Based Payments



Section 1(b):

...[T]he Green Mountain Care Board shall:

(1) in collaboration with the Agency of Human Services and using the [AHS-led All-Payer Model] stakeholder process ..., build on successful health care delivery system reform efforts by developing value-based payments, including global payments, from all payers to Vermont hospitals or accountable care organizations, or both ...

...

(4) consider the appropriate role of global budgets for Vermont hospitals.

NOTE – Plans in development by GMCB and AHS and likely to evolve.

Act 167 (S.285) Work Streams

Regulatory Redesign



Section 1(b):

...[T]he Green Mountain Care Board shall: ...

(2) determine how best to incorporate value-based payments, including global payments to hospitals or accountable care organizations, or both, into the Board's hospital budget review, accountable care organization certification and budget review, and other regulatory processes...

(3) recommend a methodology for determining the allowable rate of growth in Vermont hospital budgets ...; and

NOTE – Plans in development by GMCB and AHS and likely to evolve.

Act 167 (S.285) Work Streams

All-Payer Model Development (AHS Lead)



Section 1(a):

(1) The Director of Health Care Reform in the Agency of Human Services, in collaboration with the Green Mountain Care Board, shall develop a proposal for a subsequent agreement with the Center for Medicare and Medicaid Innovation to secure Medicare's sustained participation in multi-payer alternative payment models in Vermont. ...

(2)(A) The development of the proposal shall include consideration of alternative payment and delivery system approaches for hospital services and community-based providers such as primary care providers, mental health providers, substance use disorder treatment providers, skilled nursing facilities, home health agencies, and providers of long-term services and supports. ...

**NOTE – Plans in development by
GMCB and AHS and likely to evolve.**

All-Payer Model – Extension and Key Dates

As presented to House Health Care Committee, 4/14/2022



- Vermont submitted a one-year extension request in December 2021
- AHS and GMCB received a response to this request from CMMI on April 12, 2022:
 - CMMI is working to offer a one-year extension for CY2023 plus a transition year in CY2024 to prepare for a subsequent model
 - Federal clearance (likely complete in Fall 2022) will be required to complete the official extension offer, followed by SOV clearance and GMCB vote on the Agreement amendment

	Current APM Agreement	CMMI Response to Extension Request*
Agreement Term	5 performance years (PYs)	6 PYs + Transition Year
Original Term (PYs 1-5)	2018-2022	2018-2022
Extension Year (PY6)	--	2023
Transition Year	--	2024
High-Level Proposal for Subsequent Federal Agreement Due	December 31, 2021	December 31, 2022
Vermont Engages with CMMI on Potential Subsequent Agreement	Throughout 2022	Throughout 2023
Subsequent Agreement Start Date	January 1, 2023	January 1, 2025

Discussion Questions



- What feedback do General Advisory Committee members have on these work streams?
- How can we ensure that our community engagement efforts are inclusive and patient-focused?
 - What should we be looking for in a contractor to support this work?
- A core principle for this work is local community leadership in setting a vision for the future. How can we identify and engage local champions?

Hospital Sustainability

Resources & Related Board Presentations



- [Conversations with Leaders in Health Care Reform: Panel Discussion](#): January 12, 2021
- [Price and Cost Coverage Variation](#): HMA Burns, October 27, 2021
- [Vermont Hospital Quality and Capacity Analysis](#): Berkeley Research Group, October 27, 2021
- [Potentially Avoidable Utilization at Rural Hospitals](#): Mathematica, August 11, 2021
- [The Future of Rural Healthcare](#): Stroudwater and Associates, June 23, 2021
- [Act 159 of 2020 Section 5 Report: Options for Regulating Provider Reimbursement for Provider Sustainability and Equity](#): GMCB Report to the Legislature, April 7th, 2021
- [All Payer ACO Model Implementation Improvement Plan](#): Ena Backus, Director of Health Care Reform, November 19, 2020
- [Hospital Price Transparency Project](#): RAND, October 21, 2020
- [A Look at Vermont Hospitals with NASHP Hospital Cost Tool](#): NASHP, October 21, 2020
- [National Trends in State Affordability and Sustainability Strategies](#): Bailit Health, May 13, 2020
- [Rural Health Services Task Force](#): January 15, 2020