Hospital Global Budget Technical Advisory Group

OCTOBER 31, 2023
MEETING #13

Meeting Agenda

1. Recap of prior meeting discussion
2. Budget payment implementation
3. Payment administration
4. Capital improvement expenditures

October 10th Meeting Recap (1 of 2)

- Members shared **mixed feedback regarding the terms of hospital participation**
  - Two members supported a mandatory approach.
  - One member supported a hybrid approach with mandatory participation for some hospitals.
  - One member supported a voluntary approach, beginning with a pilot group representing all hospital types, with mandatory phase-in over time.
  - One member supported a voluntary-only approach.
- One member supported permitting **variation by hospital type** for thresholds for **service line changes** and **payer participation**.
- Another member suggested that **inflation adjustments should vary based on service mix costs**, as costs will rise for some services more than others.

Recap of October 10th Meeting

October 10th Meeting Recap (2 of 2)

- Regarding **supports hospitals will need to succeed under global budgets**, members conveyed the following:
  - Appropriate settings and services for end-of-life care
  - Increased capacity for lower-cost settings to allow for appropriate discharges
  - Alignment of risks and rewards within HSAs, recognizing the need for customized approaches within each HSA
  - Central data repository
  - Investment in robust community supports and wrap-around services
- Members acknowledged the importance of accountability for transformation efforts but cautioned against the potential for "overmanaging" the specifics of hospital operational and strategic plans.

Meeting Objectives

1. Budget payment implementation: Determine who should calculate budgets and manage and oversee a hospital's global budget
2. Payment administration: Discuss how payments should be administered, including who should administer the payments, the timing of fixed prospective payments, and the timing and methodology for ad hoc mid-year adjustments.
3. Capital improvement expenditures: Discuss whether, and if so how, to incorporate funding for capital improvement expenditures within the hospital global budget.

Budget Payment Implementation

Global Budget Payment Implementation Roles

Establish payment methodology	**Conduct analysis to inform adjustments, and calculate/update budget payments**
• Establish methodology for baseline budget payments and annual payment updates	• Perform analytic work to calculate adjustments to the baseline budget payments and annual payment adjustments • Apply adjustments and calculate each hospital's baseline budget payments and annual payment updates • Data validation

Pros and Cons for Payment Implementation Options (1 of 2)

Option 1: State performs all roles

Establish payment methodology	Conduct analysis to inform adjustments, and calculate/update budget payments
State role	State role
• Ensures consistency across data sources and payment calculations • Less resource intensive for payers and hospitals • More efficient state oversight • More efficient federal–state relationship if federal review/validation is needed	• Resource intensive for the State • Removes some negotiated flexibility for payers and providers

Pros and Cons for Payment Implementation Options (2 of 2)

Option 2: Hybrid state and payer/ hospital role

Establish payment methodology	Conduct analysis to inform adjustments, and calculate/update budget payments
State role	Payer/hospital role
• Less resource intensive for the State	• Risk of inconsistencies across data sources and payment calculations • Significant data lift for the payers and hospitals • More challenging for state oversight

Payment Implementation Roles in Other State Models

Maryland TCOC Model

- Health Services Cost Review Commission (HSCRC) calculates and oversees the budgets.
- Decisions are discussed through work groups, and updates are approved by the HSCRC's Board.
- Hospitals submit financial and discharge data. Payer claims are accessed through all-payer-claims database and CMS data warehouse.

Pennsylvania Rural Health Model

- Rural Health Redesign Center Authority (RHRCA) establishes the payment methodologies, performs analytic work to inform the adjustments, and calculates the global budget payments.
- RHRCA's Board approves issues that are outside of main methodology (such as COVID adjustments).
- Payers submit summary level data for calculations.
- Hospitals submit transformation plans and service line change requests.

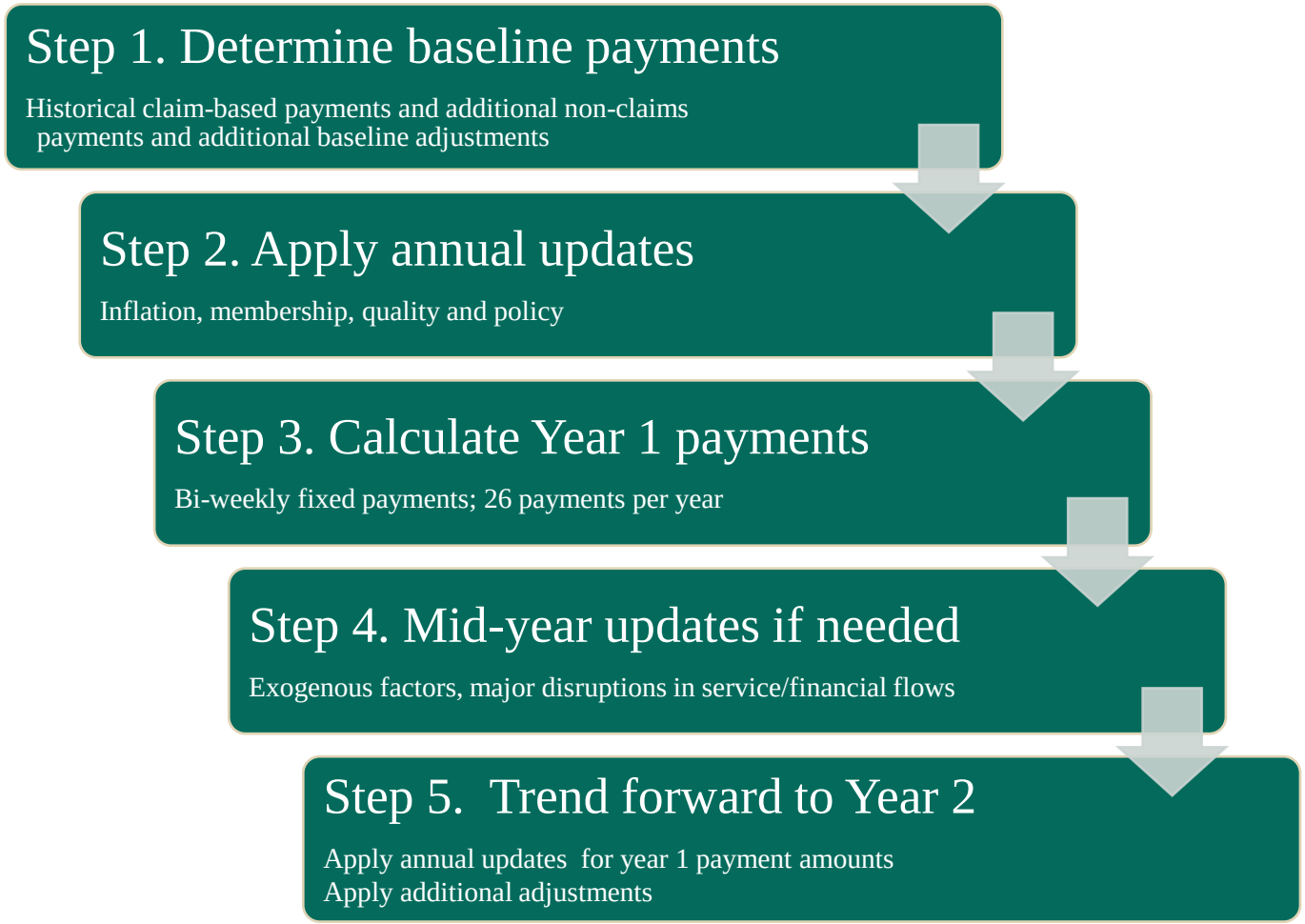
Discussion

- Which approach for budget payment implementation do TAG members support, and why?
- Using the straw model methodology as an example, what data would payers and hospitals need from the State under Option 2? (see following slide)

	Establish payment methodology	**Conduct analysis to inform adjustments, and calculate/ update budget payments**
Option 1: State performs all roles	State role	State role
Option 2: Hybrid state and payer/ hospital role	State role	Payer/ hospital role

An administrative services organization could be contracted to perform any of these roles on behalf of the State or on behalf of payers/hospitals.

Calculating Global Budget Payments
Medicare FFS Global Payment Straw Model



- Straw model describes main concepts in each step in global budget payment
- Many details still need to be determined (e.g., methodology for specific adjustments)
- Straw model focuses on Medicare FFS to support response to CMMI's AHEAD Model application
  - Commercial straw model planned for early 2024; will need to reflect unique considerations for commercial payers. Plan to seek alignment as much as possible/where appropriate

Payment Administration

Payment Administration Components

The main components of global budget payment administration include:

1) The entity(ies) that will distribute the payments
2) Timing and frequency of when the fixed prospective payments are distributed
3) Timing and methodology for ad hoc mid-year adjustments

Are there other payment administration decisions that we should consider?

Payment Distribution

Options for who distributes the global budget payments include the following:

1) Payers directly pay hospitals
2) An administrative, non-risk bearing entity collects payments from the payers and then distributes them to hospitals

What is your preferred method for distributing global budget payments?

Frequency of Payment Distribution

Options for payment distribution of regular fixed prospective payments include:

1) Bi-weekly fixed payments (current CMS proposal)
2) Monthly fixed payments (DVHA payments to OneCare for hospitals)
3) Another frequency

Frequency of Payment Distribution in Other State Models

Maryland TCOC Model

- Each hospital bills payers for services provided under the hospital's service-specific rates (remember – no prospective fixed payment in Maryland).

Pennsylvania Rural Health Model

- Participating payers have two options for making global budget payments to participating hospitals:

Fixed Global Budget Payment: Payers provide a fixed amount at a specified frequency (e.g., biweekly, monthly) over the course of the year.

Virtual Global Budget Payment: Payers continue to pay FFS claims for care provided to enrollees and conduct monthly reconciliations to the monthly global budget amount.

Discussion

- What is your preferred frequency for distribution of the regular fixed prospective payments?

Mid-Year Adjustments

- While we do not anticipate mid-year adjustments to global payments, it may be warranted to allow for additional payment adjustments mid-year due to unforeseen circumstances to mitigate risk to hospital financial flow or financial health (e.g., for exogenous factors, major disruptions in services, financial flows, etc.).
- To that end, we are soliciting feedback on the process and criteria for such potential adjustments.

Discussion

1) Under what circumstances should mid-year adjustments be allowed?
2) Who should be permitted to initiate consideration of whether to make a mid-year adjustment?
3) Who should decide whether to make the adjustment?
4) Who should decide the methodology and amounts for these adjustments?
5) Should mid-year adjustments be one-time payments, or should such adjustments impact future prospective budget payments?
   - Note that a mid-year adjustment would need to be implemented no later than August in order to impact the following year's budget payment.

Capital Improvement Expenditures

Capital Improvement Expenditure Funding Options

Options for incorporating funding for capital improvement expenditures in the global budget payment model include the following:

1) Include ad hoc budget adjustments for major capital improvement expenditures (Maryland model), or
2) Ensure that base budgets and inflation adjustments provide adequate operating margins so that hospitals can regularly invest in maintaining and expanding infrastructure (Rhode Island recommended approach)

What other options should we consider?

Pros and Cons of Ad Hoc Adjustments

- Provides a clear process for additional funding for needed investments in capital improvements
- Could work in conjunction with existing Certificate of Need (CON) process

- If hospitals have to rely on ad hoc adjustments rather than have a consistent/steady funds flow through adequate operating margins, this could make planning challenging
- May be unnecessary if the hospital is able to generate sufficient capital through operations, fundraising and financing
- Existing CON process may be too restrictive if linking to that process, and some capital improvement would likely fall below a CON threshold

Pros and Cons of Funding Through Operating Margins

- Allows for steady flow of funds for capital investments, which facilitates planning
- Hospitals have flexibility to invest as necessary without having to regularly “seek permission”

- Would require further analysis to understand what would be a sufficient operating margin to appropriately fund capital investments
- Assumes hospitals will generate adequate margins under the global budget to finance capital investment

Discussion

What is your preferred approach for incorporating funding for capital improvement expenditures in the global budget payment model?

a) Include ad hoc budget adjustments for major capital improvement expenditures?

b) Ensure that base budgets and inflation adjustments provide adequate operating margins so that hospitals can regularly invest in maintaining and expanding its infrastructure?

c) Another approach?

Wrap-up and Meeting Schedule

We are canceling the Hospital Global Budget Technical Advisory Group meeting scheduled for Tuesday, November 14th.

The next Hospital Global Budget Technical Advisory Group meeting will be on Tuesday, December 5th from 10 am – 12 pm.

- Topic: Monitoring and Evaluation

We will add one meeting in January 2024 (date TBD)

- Topic: Model Description Review and CMMI Comparison