Hospital Global Budget Technical Advisory Group

MAY 23, 2023
MEETING #7

Meeting Agenda

1. Recap of prior meeting discussion
2. Baseline budget construction
   - Revenues for inclusion and exclusion
3. Annual adjustments
   - Inflation adjustments
   - Utilization adjustments (continued)

Recap of May 9th Meeting

May 9th Meeting Recap (1 of 2)

Market shift and volume adjustments

- Members shared mixed opinions regarding whether the global budget model should include a market shift adjustment or volume adjustment, with some citing a preference for the specificity of how the market shift adjustment can be tailored to specific service lines.
- Overall, members supported applying one or more types of utilization adjustments and requested more time to consider the options, as well as further details about how each adjustment would work in practice.

May 9th Meeting Recap (2 of 2)

Planned service line changes

- Members supported applying adjustments for planned service line changes.
- Some also cautioned against counting adjustments multiple times, such as if a service line change leads to a market shift.

Interhospital transfers

- Members supported applying adjustments for interhospital transfers but cited that the Maryland definition for same or next day transfers should be expanded.

Meeting Objectives

1. Continue discussion of key components for constructing baseline budgets and develop recommendations for:
   - Selecting a “top-down” or “bottom-up” approach
   - Defining baseline revenue

2. Continue discussion of baseline and annual adjustments and develop recommendations for:
   - Specific inflation measures for making annual adjustments
   - Which utilization adjustments should be applied

Baseline Budget Construction

Recap of Global Budget Construction

1) Establish baseline budget

Identify baseline revenue

- Calculate actual hospital revenue using an average of 2022 adjusted data & 2023 data
- Specific revenue streams for exclusion (TBD)

Apply any adjustments

- Potential one-time adjustment for negative operating margins during baseline period

Trend forward to performance year

- Adjust for inflation
- Adjust for demographics

2) Apply annual adjustments (concurrent, prospective, or retrospective reconciliation)

Performance Year 1 Budget → **Performance Year 2 Budget** → **Performance Year 3 Budget, etc.**

Annual adjustments

Annual adjustments

Revenue for Baseline Budget Construction (Recap)

- We previously discussed that the global budget baseline should use *actual revenue* as the primary data source, provided that baseline budget adjustments will take into consideration the financial experiences of the hospitals (i.e., operating margins).
- Now, we are revisiting which *specific revenue streams* for each payer type should be included or excluded in the baseline budget construction.
  - Members previously requested further details on non-claims-based payment hospital revenue streams for determining which revenues to include or exclude in the budget.

Included Revenue

We recommend that the following revenue streams be included in calculating the baseline budget:

- Claims-based payments for commercial payers
- Claims-based payments for Medicaid
- Fixed prospective payments

We anticipate that CMMI will specify Medicare's approach later this year. We are not yet clear on how much flexibility states will have regarding Medicare included revenue.

Revenue Exclusions (1 of 2)

We recommend that the following non-claims-based payment revenue streams be *excluded* from the baseline budget:

Proposed revenue exclusions	Rationale
• Other reform payment (includes care coordination payments , ACO Population Health Management, Blueprint PCMH and CHT)	Highly variable, based on high-risk patients; important to maintain independence to promote innovation
• Disproportionate Share Payments • Graduate Medical Education	Supplemental payments specific to Medicaid; not part of specific adjustments; including would add complexity; GME is subject to own appropriations process *Note*: Propose to exclude at least initially but begin by monitoring impact over time

Revenue Exclusions (2 of 2)

Proposed revenue exclusions	Rationale
• 340B Retail Pharmacy Programs • Specialty Pharmacy • Outpatient pharmacy revenue	Pharmacy benefit structure differs across plans (e.g., Rx-only plans); introduction of high-cost drugs; difficult to track shifts in utilization to other providers/pharmacies *Note*: large and growing revenue category that the State could monitor over time
• Reference lab revenue	Specialty public health lab
Other non-NPR, for example: • Community Foundation Revenue • Grant income • Cafeteria & parking • Physician office and other rentals	Different non-NPR funding sources

Inflation Adjustments

Inflation Adjustments (Recap)

- Previously, we discussed including inflation adjustments that use measures reflecting both a hospital cost lens and an affordability lens.
- We are now seeking feedback on which specific inflation measures should be used for annual adjustments.

Balancing the Goals of Ensuring Hospital Viability with Consumer Affordability

In setting inflationary factors for the global budget, we need to consider two perspectives:

1. Ensure that hospitals remain viable by adequately taking into account the annual changes in input prices that they face (e.g., labor, equipment, supplies, etc.).
2. Protect consumers' interests and ensure hospital spending grows at an affordable rate.

We will look at measures of inflation that reflect these two perspectives.

Proposed Formula for Adjusting for Inflation

We propose calculating inflation using the following formula, which takes hospital costs and affordability into consideration.

50% x Hospital Cost Measure + **50% x VT Consumer Affordability Measure** = **Annual Inflation Factor**

Does this approach seem reasonable to you?

Inflation Measure Options: Hospital Cost Perspective

We recommend using the **CMS Market Basket Index** as the hospital cost inflation measure.

- It reflects changes in the prices of inputs to health care delivery over time.
- It includes a range of goods and services, including labor costs, medical supplies, and equipment.
- Has a separate index for psychiatric hospitals.
- Measures “pure” price changes only.
- Historical and projected values are publicly available.
- It is used by Maryland to inflate hospital global budgets from year to year.

Does this approach seem reasonable to you?

Inflation Measure Options: Consumer Affordability Perspective

We recommend using **Vermont Median Household Income** as the consumer affordability measure.

- It represents change in consumers' purchasing power and ability to afford goods and services.
- A state-specific measurement is available.

Does this approach seem reasonable to you?

Inflation and Income Forecasts

Projections of Economic Indicators		
Year	Market Basket Index (MBI)	VT median household income*
2023	4.0%	TBD
2024	2.9%	TBD
2025	2.8%	TBD

*Vermont median household income forecast will be added once obtained.

Utilization Adjustments

Utilization Adjustments Summary

	Volume adjustment	Specific utilization adjustments
Adjustments	Adjustment based on utilization changes compared to projection Use variable cost estimate to adjust the budget Can be implemented if the variation exceeds certain thresholds to maintain predictability	Adjustments based on specific trend. Separate decision points to tailor adjustments based on their significance and impact on incentives • Demographic / membership • Market shift • Exogenous factors • Planned service lines • Interhospital transfers Can be implemented if the variation exceeds certain thresholds, specific to the adjustment, to maintain predictability

Utilization Adjustments - Implementation Options

	Volume adjustment	Specific utilization adjustments
Timing	Allows for adjustments during performance year, and possibly at year end, with infrastructure to monitor/ project volumes compared to budgeted.	Most will be done at the end of the performance year. Some could be implemented during a performance year (such as exogenous adjustments).

Utilization Adjustment Scenarios (1 of 4)

	Volume adjustment	Specific utilization adjustments
Scenario 1: Bad flu season results in **higher-than expected flu-related hospitalizations** across the state.	All hospitals would receive increased global budget payments to cover the increased variable costs associated with the increased hospitalizations.	Exogenous factor adjustment No market shift adjustment
Scenario 2: A new virulent strain of COVID-19 produces a **sharp reduction in patient care-seeking behavior** for six months across all hospitals.	All hospitals would receive decreased global budget payments for the variable costs associated with those visits, while maintaining global budget funding to cover fixed costs.	Exogenous factor adjustment No market shift adjustment

Utilization Adjustment Scenarios (2 of 4)

	Volume adjustment	Specific utilization adjustments
Scenario 3: Hospital A has an **unplanned service closure** during the performance year and Hospital B hires the doctor(s) and absorbs the volume from that closure.	Hospital A's budget payments would decrease during the performance year (PY) to account for the decreased variable costs associated with the decline in volume. Hospital B's budget payments would increase during the PY to account for the increased variable costs associated with the resulting volume growth.	A year-end market shift adjustment would apply. Hospital A would receive decreased budget payments for the next PY to account for the decline in volume related to the service line closure in the prior PY. Hospital B would receive increased budget payments for the next PY to account for volume growth specific to that service line from the prior PY, or Hospital B would be paid a lump sum settlement outside of the budget. Hospital B can also request mid-year adjustment for planned service line change.

Utilization Adjustment Scenarios (3 of 4)

	Volume adjustment	Specific utilization adjustments
Scenario 4: Hospital A is **at capacity** for multiple service lines and sends patients to Hospital B during the performance year.	Hospital B's budget payments would increase during the PY to account for the increased variable costs associated with the resulting volume growth.	Transfer adjustment for Hospital B, as receiving hospital. Hospital A does not have any adjustment since utilization did not decline.
Scenario 5: Hospital B increases volume by **offering a new service line**.	Hospital B's budget payments would increase to account for the increased variable costs associated with the resulting volume growth.	Planned service line adjustment (prospective addition to the budget, reconciliation to actual growth in one/two years).

Utilization Adjustment Scenarios (4 of 4)

	Volume adjustment	Specific utilization adjustments
Scenario 6: PCMHs or other **coordinated care efforts direct care** to Hospital B and away from Hospital A throughout the performance year in order to increase cost-effectiveness, efficiency or quality of care.	Hospital A's budget payments would decrease during the PY to account for the decreased variable costs associated with the decline in volume. Hospital B's budget payments would increase during the PY to account for the increased variable costs associated with the resulting volume growth.	A year-end market shift adjustment applies if Hospital B's increased volume corresponded with decreased volume for Hospital A for one or more of the same service lines.

Discussion

- Should the global budget model include:
  - a volume adjustment, or
  - a market shift adjustment, combined with other specific utilization adjustments?

➢ Note that we will discuss more detailed operational questions for these adjustments during a subsequent meeting.

Wrap-up and Next Meeting

The next Hospital Global Budget Technical Advisory Group meeting is scheduled for Tuesday, **June 13th** from 10 am – 12 pm.