

Hospital Budget Review – Fact Sheet

Hospital Budget Performance: Fiscal Year (FY) 2016 and first quarter FY 2017¹

The GMCB has begun its review of hospital budget performance using guidance issued on April 3, 2015 and a dashboard of key performance indicators prepared by GMCB staff. The process is as follows:

- Review FY16 actuals and FY17 actuals to date with GMCB staff at public board meeting - March 30, 2017
- Hospitals appear before GMCB re: 2016 actual results at public board meeting - April 4, 2017
- Public Comment period for FY16 actuals April 4 – April 13
- Determine appropriate action and enforcement re: 2016 actual results - no later than April 13, 2017

Although eight of Vermont's 14 hospitals exceeded net patient revenue targets in FY 2016, half of these hospitals are *below* the NPR target for FY 2017 based on the first five months of data. Net patient revenue is a measure of all payer revenues earned by hospitals, but does not tell the full story of whether a hospital has earned greater profit. Higher expenses related to utilization increases typically offset some of the higher revenue. Of the four hospitals over target in FY 2017, three had a margin of 2.0% or less in FY 2016.

The slowdown in revenue in 2017 may be explained by the commercial rate cuts required by the GMCB. Between March 2016 and January 2017, the GMCB imposed rate cuts on five hospitals. Because of the claims lag, contractual renegotiation, and other operational factors, a rate cut takes time to flow into the system and the impacts were not fully realized in FY 2016, but are now appearing in FY 2017 actuals.

During the review process, the Board will consider the hospitals' key performance indicators (KPIs), which provide a wider view of the hospitals' finances and financial health. The KPIs include not only net patient revenue, but also total operating expenses, operating margins, days cash on hand, and other important metrics.

The purpose is to provide a comprehensive picture of the hospitals' finances to determine if any increase from budgeted utilization has resulted in greater operating surplus (commonly called "profit") or if the increase is offset by expenses related to patient care. For example, increased utilization caused by the reduction in the uninsured is good, because it results from more Vermonter having access to coverage.

Reviewing the data is only the first step in the process. Six Hospitals will appear at the GMCB's public board meeting on April 4, 2017 to explain their variances as it relates to their 2016 budget performance. The GMCB has the following options when reviewing budget performance: reduce a hospital's rates; adjust the current budget; adjust the FY 2018 budget; or review actual operations for the current budget year.

¹ Hospital Fiscal Years are from Oct 1st to Sept 30th.



Fiscal Year 2018 Guidance

The GMCB has discussed making the following changes to the hospital budget process for FY 2018:

- Utilizing a “dashboard” to comprehensively review hospitals’ NPR and other key performance indicators: In addition to setting a net patient revenue target, the GMCB will continue to review the key performance indicators and examine ways the hospitals can implement efficiencies to slow the growth in health care costs.
- Utilizing information regarding hospital pricing: The Board will scrutinize pricing information, available in the Department of Health’s hospital report cards, in its budget review process to add more transparency.
- Assessing quality: The GMCB will be reviewing information on hospital readmissions and the programs in place that are designed to reduce these readmissions. We may also include information available from the ACO for any hospitals participating in an ACO program for FY 2018.
- Supporting health care reform: The GMCB is working to more narrowly define health care reform and encourage innovative reform activities and investments that align with the goals of the All-Payer Model. This change is being made by allowing 0.4% net patient revenue growth for new investments in ACO infrastructure, programs, ACO-related community activities, and activities identified in the community health needs assessment that relate to meeting the population health measures, or to financial targets in the All-Payer Model ACO Agreement.

Fiscal Year 2018 Guidance Timeline

- Presentation at public Board meeting of proposed hospital budget guidance for 2018 - March 23, 2017
- Public Comment period for FY 2018 guidance March 23 - March 29
- Vote approving FY 2018 guidance - March 30, 2017

