Hospital Global Budget Working Group

March 6, 2023

Agenda

- Recap of the Consensus from the Last Meeting
- Continue Discussion of How to Calculate and Update Budgets Annually
- Public Comment
- Next Steps

Recap of the Consensus from the Last Meeting

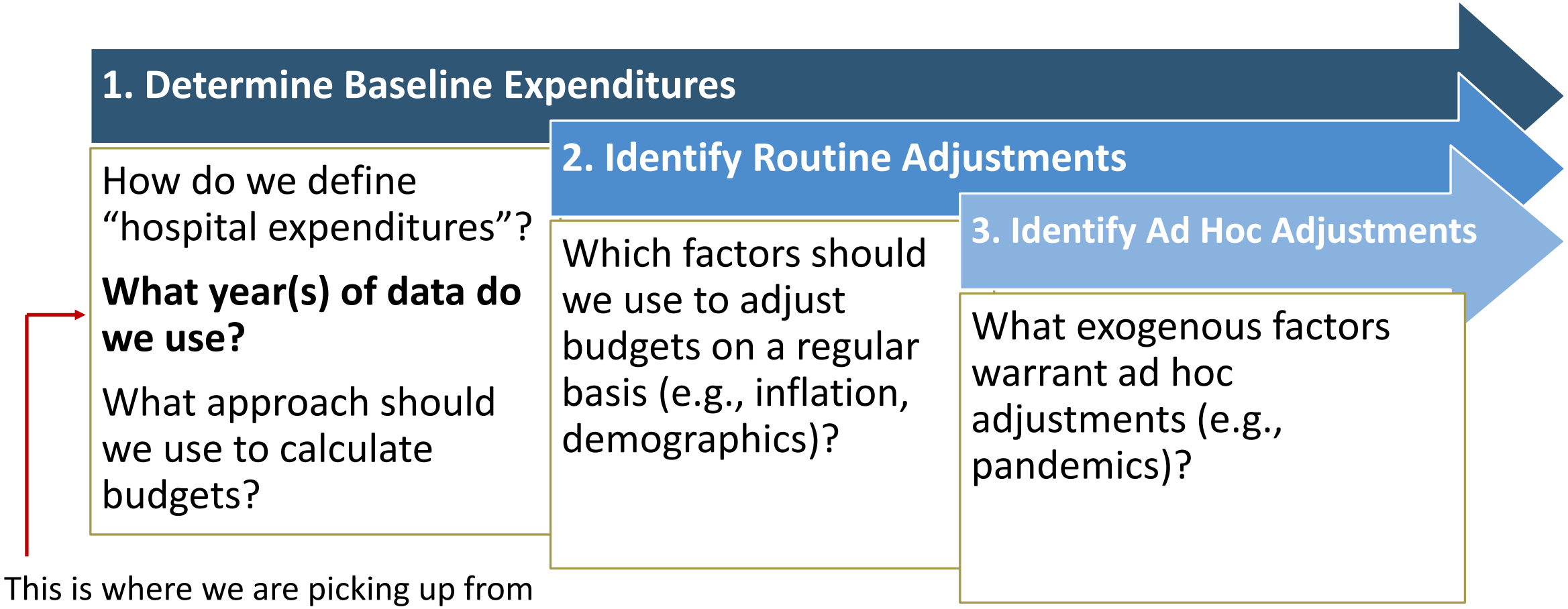
Consensus from the February 23rd Meeting

1. Include all services (inpatient, outpatient and professional) billed under the hospital's TIN in the hospital global budget.
   a. Exclude services delivered by system-owned entities that are not part of the hospital.
   b. Include mechanisms to monitor for the shifting of services outside of the hospital global budget.
2. Include revenue generated by participating hospitals from claims paid for members covered by participating payers.
3. Calculate baseline budgets using net patient revenue, but with consideration of operating expenses and margin.

Continue Discussion of How to Calculate and Update Budgets Annually

Reminder of the Steps to Calculate Global Budgets

There are three overarching steps to calculating global budgets.



What Year(s) of Data Should We Use to Determine the Baseline Budget?

States typically use historical financial data from one or more prior years to establish baseline expenditures.

MD All-Payer and TCOC Model	PA Rural Health Model
Most recent prior year	Average across three most recent prior years

Given the impact of COVID-19 on hospital financials, we recommend using data from 2023, 2024, and/or other years when developing budgets for 2026.

We recommend deferring consideration of what year(s) of data to use until hospital financial data for years closer to 2026 are available.

What Approach Should We Use to Calculate Budgets?

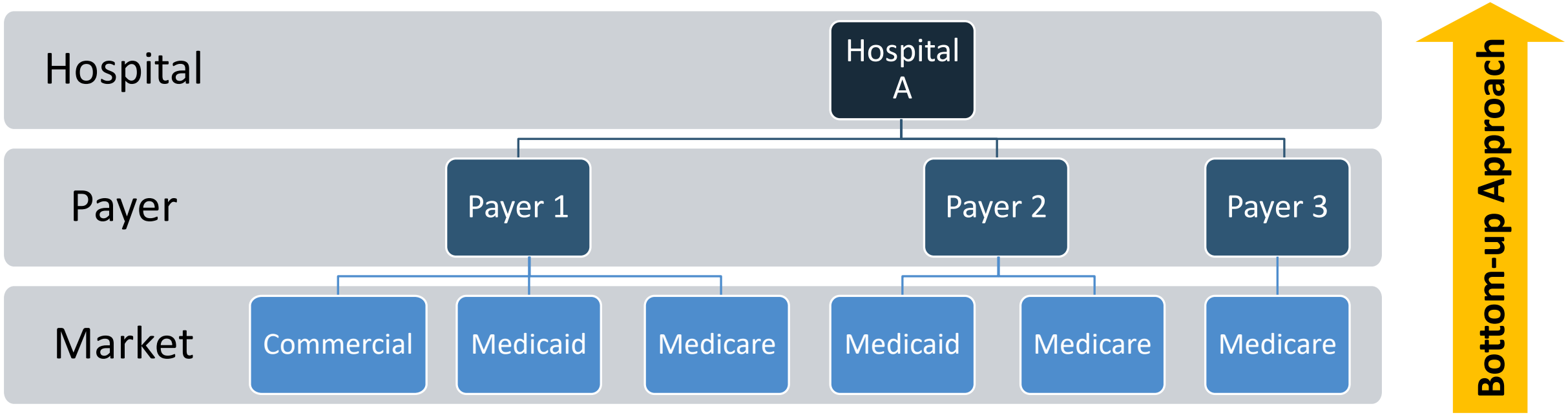
Hospital global budgets can be calculated using a **bottom-up approach**.

- This approach relies on reconciling payer and hospital financial data to calculate **individual payer budgets** (either by market or across markets).
- It can also leverage hospital financial data to develop budget adjustments (to be discussed later).

As we review the following example, consider whether you recommend adopting (a) one budget for each payer across markets or (b) individual budgets for each payer/market dyad.

What Approach Should We Use to Calculate Budgets? (cont'd)

In this example, a hospital would have **at least three budgets** (one for each payer) and **possibly six budgets** (one for each payer/market dyad)



2. Which Routine Adjustments Should We Make?

As you read the following slides, consider which of the following budget adjustments you recommend.

Please note that we will discuss the following topics in future meetings:

- How to define each of these adjustments in greater detail
- How to incorporate these adjustments into the budget calculation

Demographics	Inflation	Market Share*
Case Mix	Uncompensated Care	Other?

*We will defer consideration of market share adjustments until after we discuss flexible global budget arrangements.

Confirm Adjusting for Demographics and Inflation

It is common practice to annually adjust budgets using two factors at a minimum.

Demographics	• Accounts for changes in the age and sex profile of the patients served by the hospital
Inflation	• Accounts for changes in the cost of producing services

Do you agree with adjusting the budgets to account for these factors?

Should We Adjust for Case Mix?

Case Mix

Accounts for changes the patient population's health status

- Modifies hospital payments to account for the patient population's health status
- Reduces the incentive for hospitals to only treat healthy patients

- May not accurately reflect changes in risk due to coding practices

Should We Adjust for Uncompensated Care?

Uncompensated Care

Accounts for services for which hospitals do not get reimbursed (i.e., charity care, bad debt)

- Reduces the incentive to shift uncompensated care to other hospitals

- Requires either (a) a separate pool of funding or (b) a rate increase to cover uncompensated care

Are There Other Routine Adjustments We Should Consider?

Are there any additional optional budget adjustments you think we should consider?

As a reminder, a hospital global budget focuses on payments for hospital services. As a result, there will be other payment streams that will remain independent from the hospital global budget, such as:

- Graduate/indirect medical education
- Disproportionate share hospital (DSH) payments

Should Routine Adjustments be Made Prospectively?

- Routine adjustments are typically known ahead of the performance period and therefore made prospectively.
  - Prospective adjustments ensures changes in performance during the year are reflected in a future year's budget.
  - They also provide greater certainty around what a hospital's budget will be in advance of the performance period.

Does this approach seem reasonable to you, or do you recommend adjusting budgets retrospectively?

Should Routine Adjustments be Made Annually or Less Frequently?

ANNUAL ADJUSTMENTS

- Ensures hospital budgets reflect the most recent performance
- Results in one methodology to calculate budgets every year

LESS FREQUENT ADJUSTMENTS

- May be more reasonable to implement less frequently (e.g., every other year) if budget adjustments are small

3. Which Ad Hoc Adjustments Should We Make?

In addition to routine adjustments, there may be grounds to adjust budgets on an ad hoc basis due to planned changes and/or exogenous factors.

Examples may include:

- New service offerings/ closures
- Pandemics*
- Significant macroeconomic changes
- Social risk/equity

In the following slides, consider which ad hoc adjustments you recommend. Please note that we will discuss how to operationally define these adjustments in future meetings.

*We will defer consideration of pandemics until after we discuss flexible global budget arrangements.

Should We Adjust for New Service Offerings/ Closures?

New Service Offerings/Closures

Accounts for approved expansions or planned reductions in hospital service offerings

- Ensures that budgets are modified to support planned service offerings
- Encourages hospitals to modify service offerings to meet community needs
- Builds upon existing Certificate of Need (CON) process

- May be challenging to predict how changes in service offerings will impact the budget
- Requires coordinating with the CON review process and timeline
- Could result in unnecessary expansions/restrictions if the CON process is too lenient

Should We Adjust for Significant Macroeconomic Changes?

Significant Macroeconomic Changes

Accounts for economic changes that could impact hospital finances (e.g., recessions, expansions)

- Acknowledges that economic factors outside of a hospital's control can impact finances

- Challenging to identify
  - what changes are significant enough to warrant budget adjustments and
  - the methodology for making such adjustments

Should We Adjust for Social Risk/Equity?

Social Risk/ Equity

Accounts for the social risk of the population served and aims to correct existing inequities in payments

- Supports hospitals that serve historically marginalized communities that may need additional resources
- Encourages hospitals to improve access and facilitate appropriate utilization

- Limited existing research on how to implement social risk adjustment
- No certainty that added funds would be used to further population health equity

Are There Other Ad Hoc Budget Adjustments We Should Consider?

Are there any additional ad hoc budget adjustments we should consider?

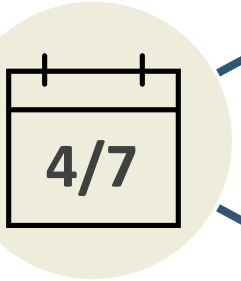
Should ad hoc budget adjustments be made prospectively or retrospectively?

Public Comment

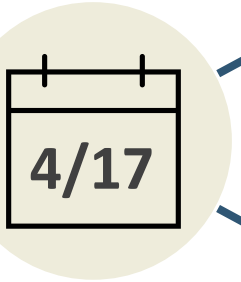
Next Steps

Working Group Meeting Plan and Schedule

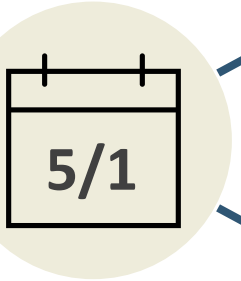
The March 27 meeting is cancelled. The updated meeting schedule is as follows.



- Discuss how to adjust budgets to account for changes in utilization during the performance period



- Decide whether the hospital global budget model should include supplemental arrangements to improve population health, access and quality



- Identify strategies for mitigating hospital technical and financial risk