Hospital Global Budget Working Group

May 1, 2023

Agenda

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

Recap of the Consensus from the Last Meeting

Consensus from the March 6th Meeting

1. Use flexible global budgets to adjust for volume changes during the performance year
2. Use Case Mix Adjusted Discharges (CMADs) to adjust for inpatient volume, but perform further research on: (1) how to convert per diem behavioral health and Medicaid payments to DRGs; and (2) how to address outliers
3. Task a technical workgroup with developing an approach for outpatient volume that uses either APCs or that takes the proposed Equivalent Case Mix Adjusted Discharge (ECMAD) approach and groups similar services
4. Use RVUs to adjust for changes in professional services volume
5. Implement a survey of RI hospital CFOs to assess the percentage of fixed and variable costs by revenue center

Continued Discussion of How to Calculate and Update Budgets Annually

Which Routine Adjustments Should We Make?

During prior meetings, the Working Group reached consensus to develop one adjustment to account for changes in **age, sex and case mix**.

The Working Group also agreed to adopt a **flexible global budget** approach, which establishes a framework for adjusting to account for **changes in utilization** (due to market shifts, pandemics / significant exogenous factors, other) during the performance year.

Today, we will discuss the following adjustment options:

- Inflation
- Uncompensated care
- Other

Adjusting for Inflation

The Working Group previously agreed with the concept of adjusting budgets to account for inflation.

We propose adopting a formula-driven approach to calculating inflation rather than a negotiated inflation factor, such as the one in use in the 1980s RI model.

How Should We Balance the Goals of Ensuring Hospital Viability with Consumer Affordability?

In setting inflationary factors for the Hospital Global Budget, we need to consider two perspectives:

- Ensuring that hospitals remain viable by adequately taking into account the annual changes in input prices that they face (e.g., labor, equipment, supplies, etc.)
- Protecting consumers' interests and ensuring hospital spending grows at an affordable rate, in keeping with the goals outlined in the VBP Compact and with the broader Cost Trends Project.

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 RI 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 measure. ***Does this approach seem reasonable to you?***

- Reflects changes in the prices of inputs to health care delivery over time
- Includes a range of goods and services, including labor costs, medical supplies, and equipment
- No separate market baskets for outpatient or ambulatory surgical center services, but has separate index for psychiatric hospitals
- Measures “pure” price changes only
- Historical and projected values are publicly available
- Used by MD to inflate hospital global budgets from year to year

Inflation Measure Options: Consumer Affordability Perspective (1 of 2)

RHODE ISLAND MEDIAN HOUSEHOLD INCOME

- Represents consumers' purchasing power and ability to afford goods and services
- State-specific measure

COST GROWTH TARGET

- Reflects state definition of what is an affordable rate of health care cost growth
- Incorporates measure of state economic growth (i.e., PGSP) and growth in consumer purchasing power (i.e., forecasted median household income growth)
- State-specific measure

Inflation Measure Options: Consumer Affordability Perspective (2 of 2)

Which option for measuring inflation from a consumer affordability lens makes sense to use?

Median Household Income

vs.

Cost Growth Target

Adjusting for Uncompensated Care

"Uncompensated care" means a combination of free care, which the hospital provides at no cost to the patient, bad debt, which the hospital bills for but does not collect, and less than full Medicaid reimbursement amounts.*

Moving to a hospital global budget model may not change the level of uncompensated care that hospitals face today because hospital global budgets impact how hospitals are paid; they do not impact plan benefit design.

*Source: https://rules.sos.ri.gov/regulations/part/216-40-10-23

Adjusting for Uncompensated Care (Cont'd)

With this in mind, it is important to acknowledge that some uncompensated care is or may be funded by:

- Existing federal adjustments (e.g., DSH), which will be separate from the budget development process.
- Potential base budget adjustments to close the gap in hospital operating budgets.

Additional adjustments for uncompensated care would be duplicative and could negatively impact consumer affordability. Further, there is no identified funding source to cover additional uncompensated care adjustments.

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?

Budget adjustments are typically made annually. This:

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

Does this approach seem reasonable to you, or do you recommend adjusting budgets less frequently (e.g., every other year)?

- This approach may be more feasible if budget adjustments are expected to be small.

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 future changes and/or exogenous factors.

Examples may include:

- Planned service offerings/closures and capital improvements
- Significant health care events
- Social risk/equity

In the following slides, consider which ad hoc adjustments you recommend.

Should We Adjust for Planned Service Changes and Capital Improvements?

Service Changes / Capital Imp.

Accounts for approved expansions / planned reductions in hospital service offerings and/or capital improvements

- Provides flexibility to modify budgets to support planned service offerings and capital improvements
- 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 and capital improvements will impact the budget
- Requires coordinating with the CON review process and timeline

Should We Adjust for Significant Health Care Events?

Significant Health Care Events

Accounts for economic (e.g., recessions, expansions) and non-economic changes (e.g., new drug offerings) that could impact hospital finances

- Acknowledges that there may be factors outside of a hospital's control can significantly 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 further population health equity

Are There Other Ad Hoc Budget Adjustments We Should Consider?

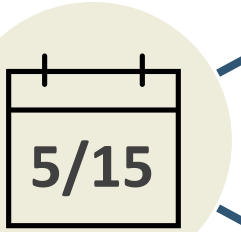
Are there any additional ad hoc budget adjustments we should consider?

Public Comment

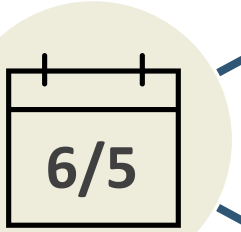
Next Steps

Working Group Meeting Plan and Schedule

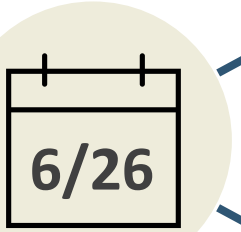
Please note that we rescheduled the 6/22 meeting (3-5pm) to 6/26 (9-11am).



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



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



- Discuss how a global budget should co-exist with other VBP initiatives
- Identify if and how the model should allow for different payers and hospitals to deviate from the recommended model