Rhode Island Hospital Global Budget Working Group
Meeting #11 Summary
HARI Conference Room
405 Promenade Street, Providence
May 15, 2023
9:00 AM – 11:00 AM

Preliminary Recommendations and Next Steps:

1. Prospectively adjust for inflation using the Medicare Market Basket Index without the productivity adjustment.
2. Develop a process for adjudicating special adjustments to the budget.

Attendees:

- Cory King, OHIC
- January Angeles, Bailit Health
- Michael Bailit, Bailit Health
- Deepti Kanneganti, Bailit Health
- Tom Breen, South County
- Steve Burke, Butler
- Doreen Carlin-Grande, NHPRI
- Al Charbonneau, RIBGH
- Chris Dooley, Prospect
- Howard Dulude, HARI
- Ana Tuya Fulton, CNE
- April Greene, Aetna
- Peter Hollmann, RIMS
- Nick Lefeber, BCBSRI
- Peter Markell, Lifespan
- Heather-Rose Mattias, CNE
- Robert Millette, Prospect
- Dan Moynihan, Lifespan
- Bob Murray, Global Health Payment
- Cathi Newman, BCBSRI
- Elena Nicolella, RIHCA
- Aaron Robinson, South County
- Lisa Tomasso, HARI
- Ira Wilson, Brown University

I. Welcome

- January Angeles summarized the reasons for considering hospital global budgets. She reviewed the meeting agenda.

II. Recap of the Discussion from the Last Meeting

- January reviewed the discussion from the May 1, 2023 meeting.
- Howard Dulude asked the Working Group if the Medicare Market Basket Index rates of roughly three percent was sufficient.
- Peter Markell said three percent seems low relative to inflation, which is roughly five percent range. Tom Breen agreed with Peter.
- Aaron Robinson commented that inflation rates are irrelevant if there is not parity in the base budget rates. Tom Breen noted the importance of addressing this major concern.

- Peter Markell acknowledged that there are two separate issues – one is correcting the base and the other is arriving at a reasonable inflation rate. Peter said when he negotiates inflation, he considers inflation for wages, supplies, pharmaceuticals, etc.
- Elena Nicolella noted that the Working Group keeps discussing the base budget and asked if the Cost Trends Steering Committee discussed this issue. She said addressing the base budget is not part of the Working Group's initial goals.
- January said there have been past discussions on using data to identify what the base budget would be using current payment rates and consider adjustments to the base to account for previously discussed factors. She reiterated that everyone agrees the current payment system is not sustainable, and while the final global budget design may not include all the components hospitals want, it may be better than what exists today.
- Al Charbonneau shared that RI hospital operating expenses are always in the top 4-5 percent of the country. He said improving efficiency can improve hospital margins, which may improve affordability through more sustainable premium growth.
- Aaron Robinson said conceptually, hospitals are supportive of global budgets as long as there are adjustments for the known unknown. This, however, is dependent on fixing the structural deficit.
- Al Charbonneau and Cory King highlighted the need for better data to understand hospital costs. Cory added that parity is not equivalency, but it is an approximation.

III. Continued Discussion of How to Calculate and Update Budgets Annually

- January described the proposed formula for adjusting for inflation and reviewed historical and projected inflation trends.
    - Peter Markell said including an affordability index will make finances for hospitals worse because hospital costs rise faster.
    - Howard Dulude asked if other states consider affordability in budgeting. Bob Murray said MD looks at hospital input cost growth, via the Medicare Market Basket Index, as well as an overall cap on state growth that is based on the State Gross Domestic Product.
    - Peter Markell commented that the Medicare Market Basket has been relatively consistent over time, median household income has been more volatile and does not have any correlation with cost drivers.
    - Tom Breen did not support using median household income as part of the inflation factor calculation.
    - Cory King supported use of the Medicare Market Basket Index because it is clean, is reflective of hospital operating input cost inflation, and is annually calculated by Medicare.
    - Peter Markell said the fairest measure would consider inflation for RI, as well as for wages, supplies, etc. Howard Dulude noted that RI adopted this approach in the 1980s. Aaron Robinson said having a similar process would alleviate hospital concern.
    - Cory King asked what percentage of hospital labor costs are collectively bargained and about average wage increases.

        - Peter Markell and Chris Dooley said unions represent roughly 50 to 60 percent of the hospital labor market, although it varies by hospital. Peter added that unions have been able to negotiate wage increases that are higher than inflation.
        - Tom Breen and Aaron Robinson said wage increases for South County Hospital are roughly 4 to 4.5 percent.
    - Cory King acknowledged that historically OHIC's hospital rate cap has grown more quickly than the CMS Medicare Market Basket Index because it is CPI plus one percentage point.
    - January proposed using the Medicare Market Basket Index, without productivity adjustments, as the annual inflation factor combined with a process to evaluate potential retrospective ad hoc adjustments.
        - Al Charbonneau proposed developing a contingency fund to address unexpected challenges that may arise.
        - Howard Dulude noted that it would be feasible to implement prospective adjustments to inflation. January highlighted that this would require an annual negotiation process, which would be intensive.
        - Aaron Robinson said annual negotiations would help develop trust.
        - Deepti commented that annual budget adjustments would reduce revenue certainty. She reminded the Working Group that there will be a separate process to consider ad hoc adjustments.
        - Peter Hollman supported developing guidelines to justify when the inflation factor should deviate from the Medicare Market Basket Index.
        - Al Charbonneau agreed with Peter and added that there should be limited deviations from a formula-driven approach.
        - Peter Markell and Aaron Robinson conceptually supported the proposed approach.
        - **Preliminary Recommendations**: Use the projected Medicare Market Basket Index without productivity adjustments as the annual inflation factor. Develop a process for adjudicating special adjustments to the inflation factor.
- Deepti described MD's process for making budget adjustments. Individual hospitals can request an adjustment in which case the MD commission conducts a full rate review and could adjust the individual hospital's budget up or down based on the review's results. The commission could also recommend changes to existing methodologies that would impact all hospitals, such as increasing payments for all hospitals to account for new, expensive drugs or technologies.
- Deepti asked the Working Group to confirm, based on previous discussions, that they want adjustments for planned service offerings or closures, capital investments, and the introduction of new medical technology.
    - Tom Breen suggested adding an "other" category as a catch all.
    - Cory King asked how capital investments and planned service offerings or closures would be reflected in the budget.

- Deepti proposed leveraging the current Certificate of Need (CON) process for identifying when budgets would need to be adjusted for capital expenditures. She indicated that MD uses this process which could serve as a model for implementation in RI.
- Aaron Robinson expressed concern about age of plant for hospitals in RI, saying there should be a benchmark for determining whether there is adequate infrastructure investment. He also indicated that RI has the lowest CON thresholds nationally and that leveraging this process would be a non-starter.
- Howard Dulude indicated that incremental interest and depreciation are expense items, so he was not sure how these could be incorporated into a revenue budget.
- Peter Markell indicated that one could arrive at a percent of depreciation that is reasonable for funding, so the revenue budget could be built to give hospitals an operating margin that would reflect some percent of depreciation.
- Al Charbonneau said that Rochester had three committees and before going into a formal CON process, the committees would have a dialogue. He said this was really helpful operationally because a lot of initial discussions happen with the governing entity.
- Peter Markell said that hospitals have to know how much they have so they can plan. He pointed out that a lot of capital investments don't go through the CON process, such as replacement capital, IT, and equipment. He said there should be a sustainable flow of funds for capital, of which items that go through the CON process are just a subset. Peter and Tom Breen also indicated that the amounts allocated need to recognize that future costs will be higher than past capital costs.
- Peter Hollman distinguished between aberrant spending for capital improvements that require significant funding vs regular maintenance projects.
- Deepti proposed to set up a future conversation to tease out what are truly ad hoc issues that would require review vs maintenance projects.
- Cathi Newman raised a concern around how such funding could be fairly allocated to plans, especially in the context of a voluntary effort where not all payers are participating.
- **Next Steps:** The Working Group will continue discussion of adjustments for capital investments at the next meeting.

IV. Public Comment

- Cory King asked for public comment. There was none.

V. Next Steps

- The next Working Group meeting will be on June 5, 2023.