Global Budgets for Rural Hospitals in New Mexico

Interim Report to the Legislative Health and Human Services Committee on Analyses Related To Health Care Cost Drivers in New Mexico

10.18.2023

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NORC at the University of Chicago is an objective, nonpartisan, research organization that delivers insights and analysis decision-makers trust.
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Expertise

Value-Based Payment, Care Delivery Reform

Previously Minnesota's State Medicaid Director and CEO of MNsure

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Agenda

01 Summary and Background

02 Initial Findings

03 Next Steps

04 Q&A

Summary and Background

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NORC and two studies requested by New Mexico

- **NORC responded to the LSC request for proposals, June 28, 2023**
- **NORC was selected to conduct studies of:**
  - Feasibility of global budgets for rural hospitals in New Mexico
  - Methods to reduce administrative costs in the health care system

Global budget analysis will use three key approaches:

- Environmental scan of recent literature on global budget policies
- Interviews of New Mexico-based experts
- Analysis of Medicare cost reports for New Mexico hospitals

Deliverables include

- Interim report in progress and oral presentation, October 2023
- Final report and oral presentation, November-December 2023

Study methods and three approaches to the analysis in progress:

Literature review of published articles and legislative reports to establish US and international background for potential global budget policy in New Mexico

- including studies of Maryland, Pennsylvania, and Vermont

Informed stakeholder interviews to understand New Mexico health care landscape

- Suggested experts include hospital representatives, payers, Medicaid, insurance regulation, consumer advocates.

Cost reporting analysis of New Mexico hospitals to assess financial health

- Compare rural vs urban financial performance, and critical access hospitals to rural PPS hospitals.

Key issues and considerations

To determine the feasibility of global budgets providing NM hospitals with fixed, planned revenues and facilitating their financial stability, much depends on how the policy is designed

- Which payers participate?
  - Medicare and Medicaid together provide from 50 to over 90 percent of New Mexico hospitals' inpatient revenue.
  - Can or should commercial payers be required to participate? Maryland is all-payer, Pennsylvania must recruit commercial participants
  - Other countries use global budgets to pay hospitals under different but universal insurance systems: e.g., Canada, France, Netherlands, Taiwan
    - Single payer or joint payer negotiation

Background (continued)

- **Which services are included?**
  - NORC study assumes New Mexico is considering policies covering all rural hospital acute care services (inpatient and outpatient). But subsets of services could be separated (e.g., maternity care)
  - Urban hospitals to be excluded; we will compare historical performance
    - Rural hospitals serve mostly isolated markets; some with hospital system affiliation
  - How to incorporate incentives for primary care to substitute for hospital care?
  - Payment incentives and standards for quality of care:
    - Fee-for-service incentives to oversupply services
    - Conversely, a fixed global budget may lead to an undersupply
  - How to adapt to sudden changes in service demand (e.g., COVID)

Background (continued)

- How are hospitals selected: voluntary or mandatory participation?
  - Would hospitals in most challenging financial status opt for global budgets if participation is voluntary? It could depend on implementation of policy choices.
- How is the budget calculated?
  - Historical costs + annual update (fixes in place current costs even if unnecessary)
    - What is the basis for update? How cost inflation is measured affects cost control
  - Accountable cost analysis (set baseline by audit, then annual updates)
  - Negotiation (per hospital, per payer). Who administers negotiations?

Initial Findings

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Initial Findings: Hospitals

More hospitals might experience increased financial stability but cost-based or fee-for-service reimbursement under current regulations allows some rural hospitals to have positive finances.

- Questions about implementation, coordination of payment, IT systems
- Surges in utilization and changes in revenues from COVID.
- Maintain or change status of current operations
  - 13 rural hospitals[1] maintain participation in Medicare prospective payment
    - Status of "swing beds" (can be acute care or skilled nursing) as revenue source, community resource
  - Option to convert to critical access hospital (11 CAHs currently in NM) status
  - Rural emergency hospital (REH) status (no inpatient services or swing beds, other limitations). One hospital (Guadaloupe County) converting.
    - REH paid a base rate of ~$3 million, plus fees for services. Almost a partial global budget system. Per CEO, "Numbers made the case"

[1]Counts of hospitals classified in FY 2024 Inpatient Prospective Payment System impact file. https://www.cms.gov/medicare/payment/prospective-payment-systems/acute-inpatient-pps/fy-2024-ipps-final-rule-home-page FY 2024 was selected to accord with any forthcoming policy changes.

Initial findings: Payers

Payer implications still being collected

- Medicaid payments flow through MCOs' negotiated prices with hospitals
- Medicare Advantage (MA) payment is different from Traditional Medicare
  - Even CAHs must negotiate fee schedule payments with MA affecting revenues.
- Participation of Medicare and Medicaid subject to waiver negotiation with CMS.
- Recently announced Center for Medicare and Medicaid Innovation (CMMI) AHEAD model allows for global budgets as part of total cost of care regulation in 8 pilot states.
  - New Mexico and other states are excluded because of transition to another pilot program: Making Care Primary (MCP)[2].
  - Most likely venue for new states to transition to global budget
  - Could NM and other states renegotiate AHEAD with CMMI for joint participation in MCP and AHEAD?

[2] https://www.cms.gov/priorities/innovation/innovation-models/making-care-primary

Payer Comments (continued)

- Alignment of incentives across current Value Based Purchasing (e.g. MCP, Medicare and Medicaid full risk agreements already in place) and payment arrangements at the hospital will be crucial.
- Given the transformation in how providers will be paid, and expectation for care delivery, any new model will need a glide path and time for transition.
- Pursuing a separate global budget model may be possible in collaboration with the MCP model down the road (i.e., in 5 years or so).

Initial Financial Analysis (continuing)

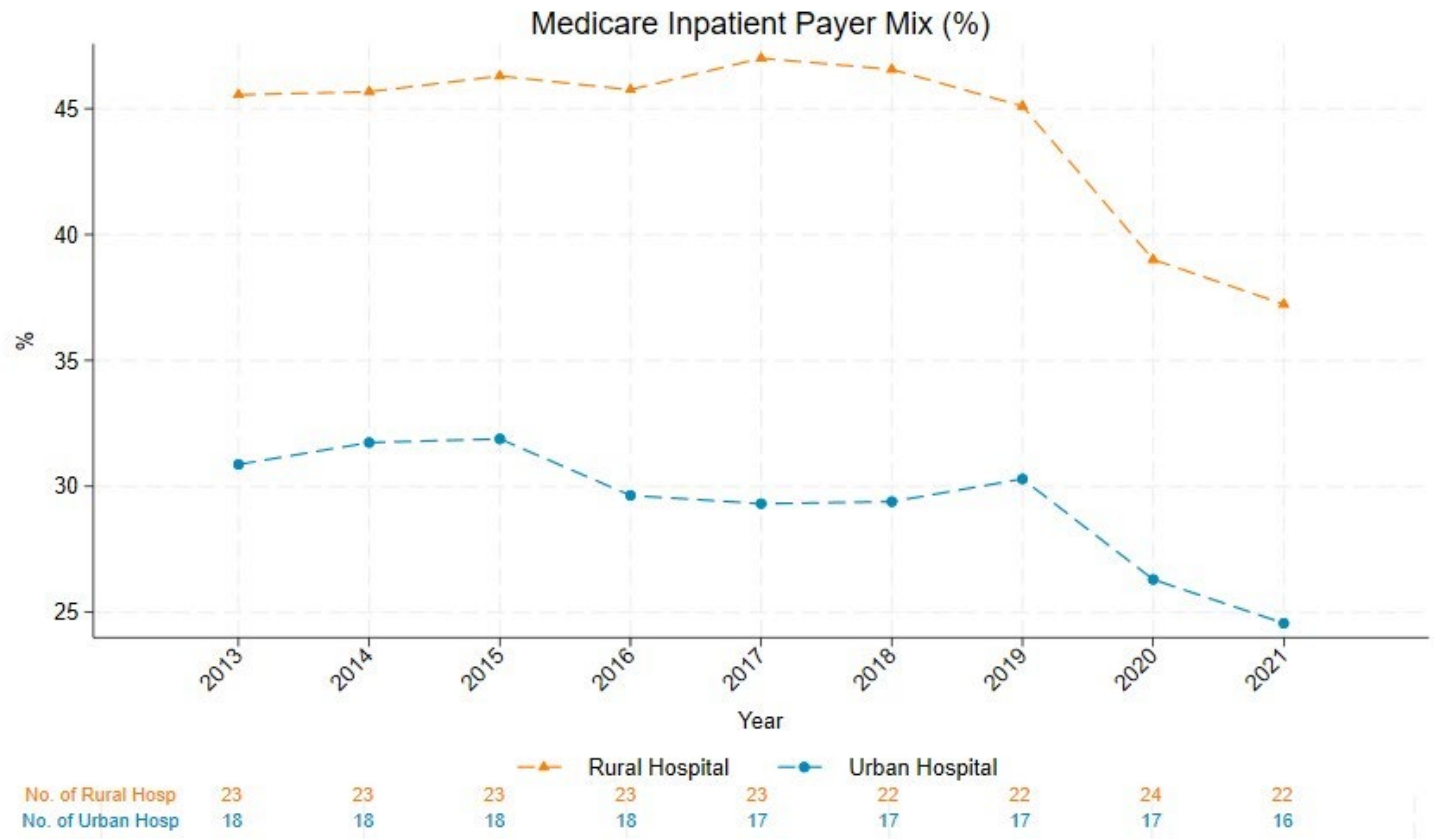
Financial status of NM rural hospitals varies.

- Definitions: "Rural" location as defined by CMS[3] as outside a Metropolitan Statistical Area (MSA), although hospitals can request reclassifications to different status for payment.
- Data from 2013 to 2021 Medicare Cost Report Information System.
- Preliminary analysis is subject to revision and change.
- Plan to examine performance by hospital for final report.

*Classified according to the FY 2024 Inpatient Prospective Payment System impact file. https://www.cms.gov/medicare/payment/prospective-payment-systems/acute-inpatient-pps/fy-2024-ipps-final-rule-home-page FY 2024 was selected to accord with any forthcoming policy changes.

Rural Hospitals are more dependent on Medicare reimbursement

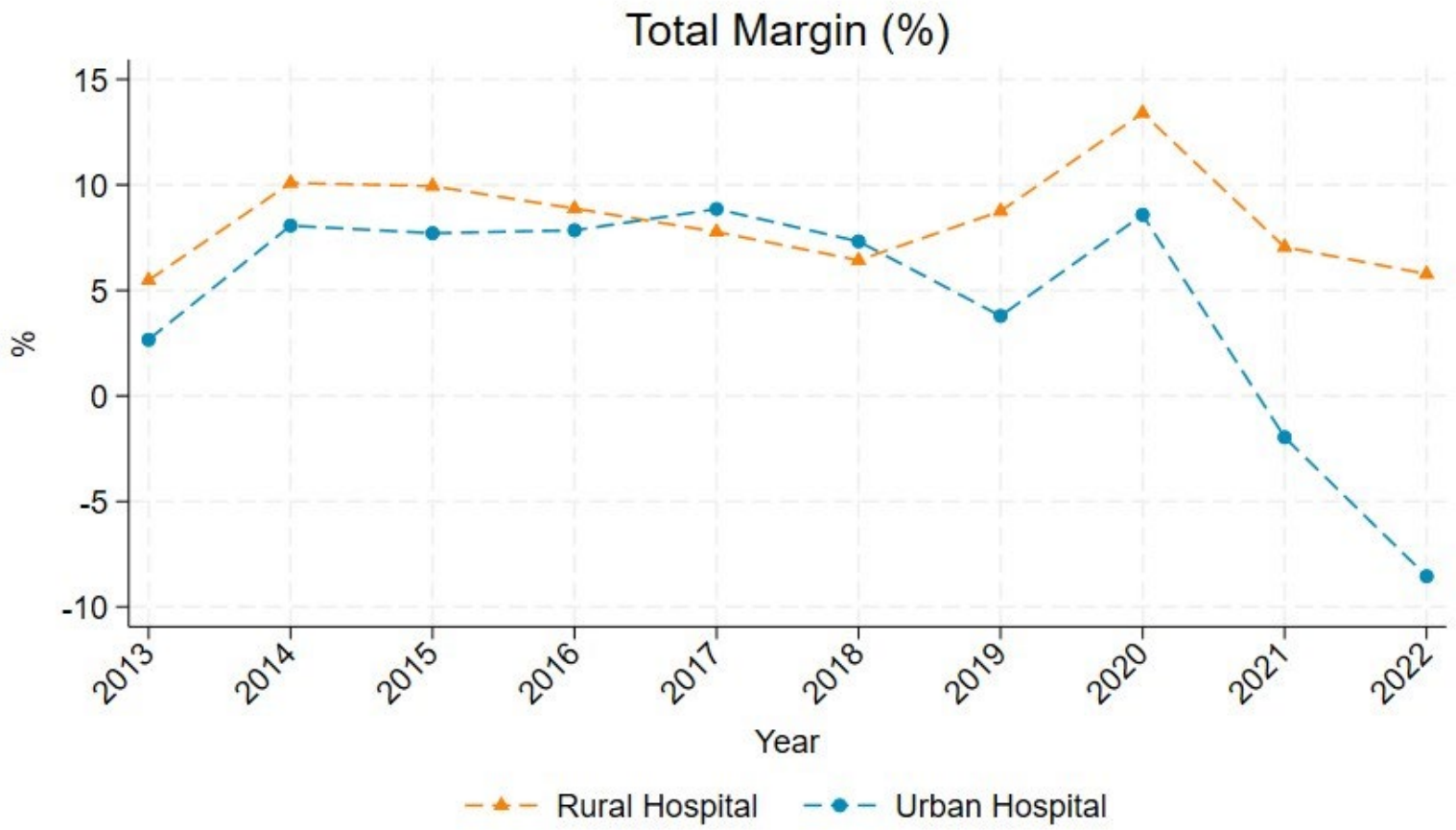
Average Rural vs Urban Medicare Share of Inpatient



Source: NORC tabulations of Medicare cost reports

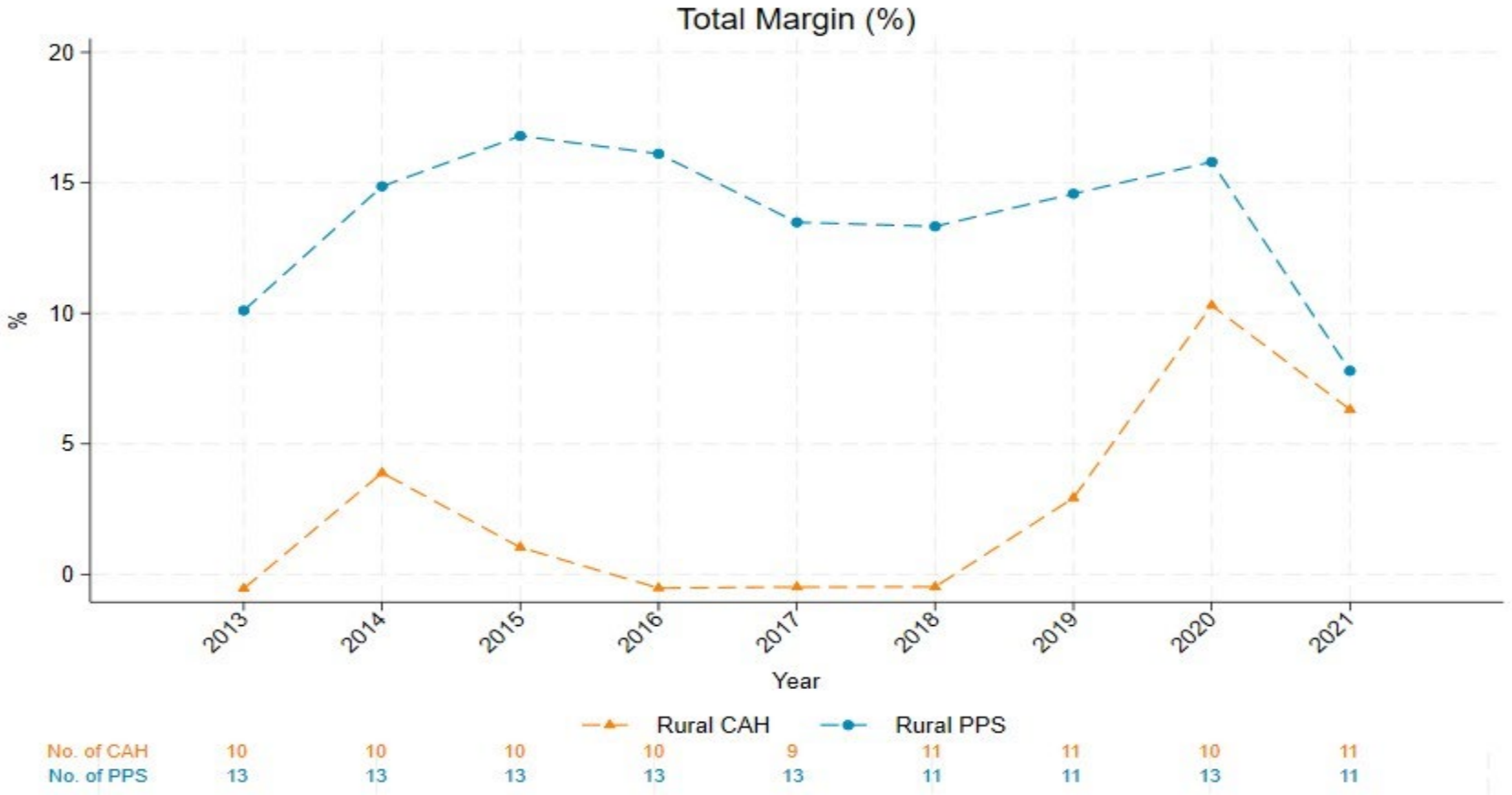
Average Total Margin New Mexico Urban vs Rural Hospitals

- Provides overall picture of institutional finances
- In lieu of reporting operating margins based on revenues from payers for paid services



Source: NORC tabulations of Medicare cost reports

Average Total Margin New Mexico CAHs vs. Rural PPS Hospitals



Source: NORC tabulations of Medicare cost reports

Next Steps

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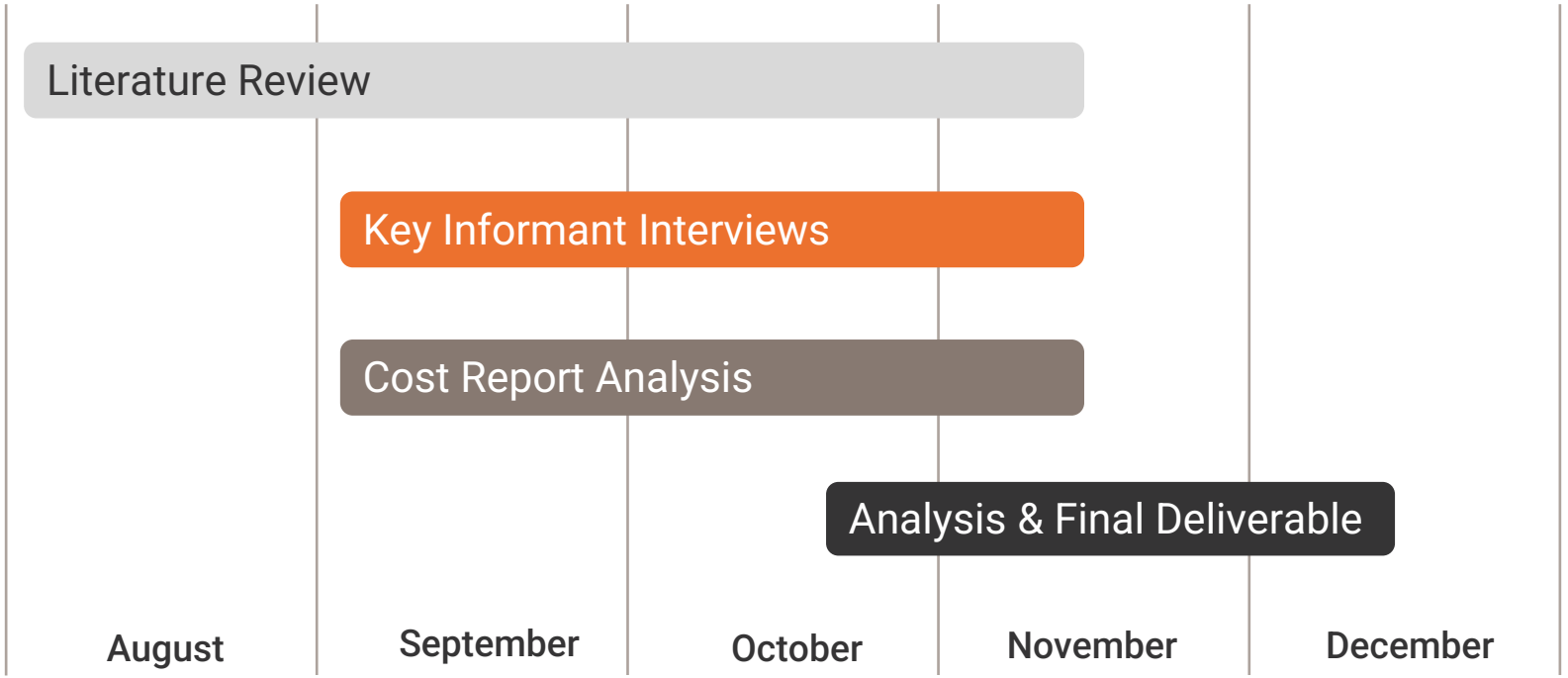
Next Steps

Continuing Analysis

- Summarizing literature findings:
  - Comparing PA, MD, VT results;
    - outcomes dependent on local circumstances
  - Understand how comparison states not necessarily like NM
- Continuing with scheduled interviews.
  - Seeking time with beneficiary/consumer representatives
- Proceeding with more detailed financial analysis
- Developing and comparing options and potential recommendations

Project Timeline

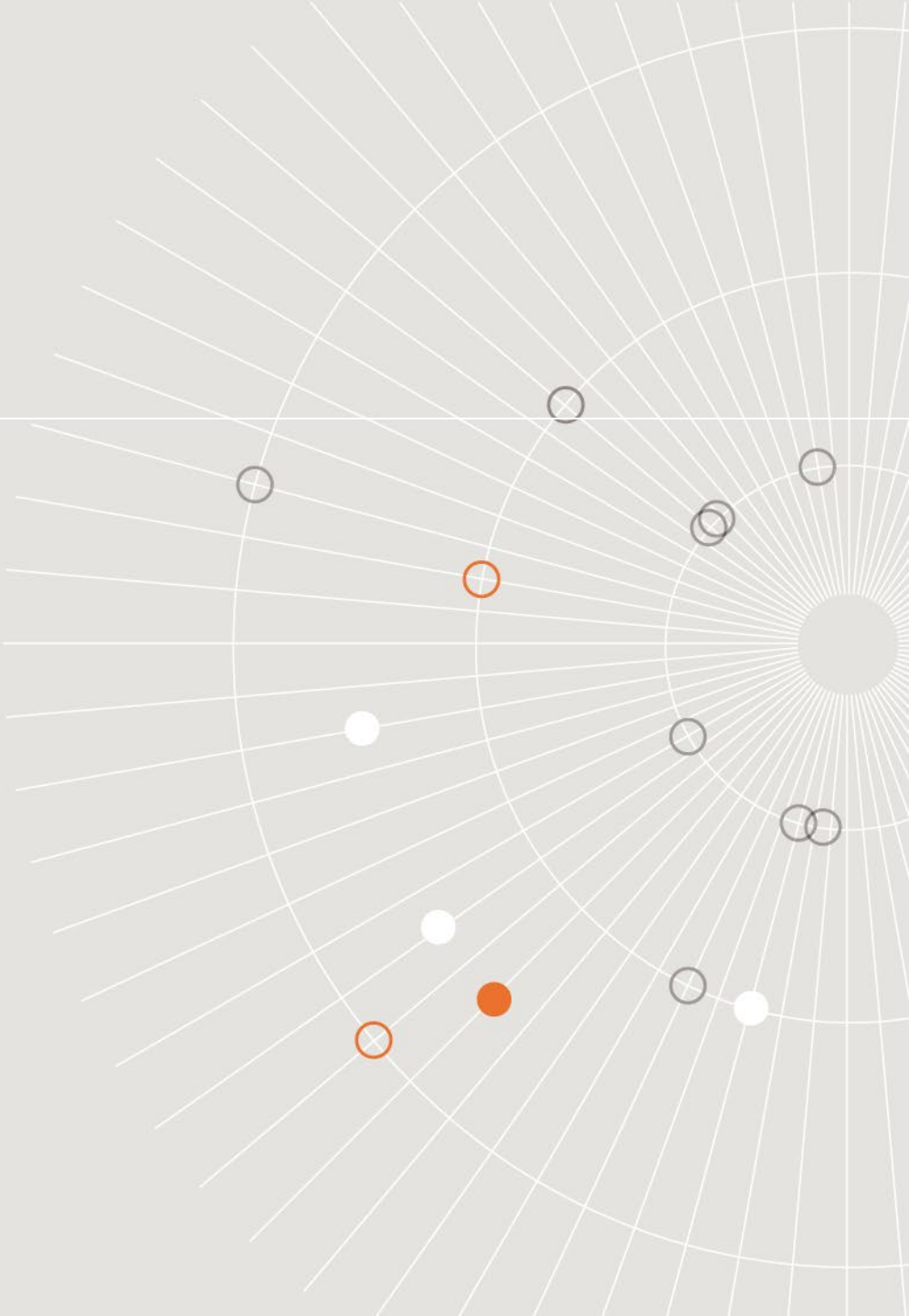


Developing Options and Potential Recommendations

Global Budgets

- Likely to require start up financing for infrastructure investment.
- Legislation may be necessary to specify or authorize a state agency to manage global budget program.
- Make allowance for necessary transition time to resolve choices in financing, organization, and administration of system

Questions?



Thank you.

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