POLICIES – Proposed January 27, 2016

Green Mountain Care Board
Hospital Budget Policy:
Net Patient Revenue FY17

At its [DATE], 2016 public meeting, the Green Mountain Care Board (GMCB) voted to extend its Net Patient Revenue Policy that governed hospital fiscal years 2014-2016 for one year, to cover hospital budgets for fiscal year 2017, with minor modifications as explained below.

Principles governing Net Patient Revenue growth for FY2014-FY2016

In 2013, the GMCB set a 3% limit for increases in hospital net patient revenue for the budget years of FY14 through FY16. *See* Green Mountain Care Board Hospital Budget Policy: Net Patient Revenue FY 14 – FY 16. http://www.gmcboard.vermont.gov/sites/gmcboard/files/Hospital/Net_Patient_Review_Policy.pdf.

The GMCB permitted additional NPR growth for credible health reform proposals in the amount of 1.0% (above the base target of three percent) for FY14, 0.8% for FY15, and 0.6% for FY16. In order to avail itself of the allowance, a hospital must convince the GMCB that expenditures listed as health reform are credible investments in a reformed delivery system, for example:

a. Collaborations to create a "system of care"
b. Investments in shifting expenditures away from acute care
c. Investments in population health improvement
d. Participation in approved payment reform pilots
e. Enhanced primary care and Blueprint initiatives
f. Shared decision making and "Choosing Wisely" programs

The GMCB will use the hospital budget growth target described above as a guide in our monitoring of total system costs, in identifying areas of potential excess growth and in identifying priorities for data analysis.

We will also utilize the growth target described above to guide our review of health insurer rate increases, particularly our expectations about reasonable estimates of health care cost trend factors embedded in insurer rates.

The GMCB realizes that each hospital is a unique business entity with its own unique circumstances based on size, volume and financial health, and that small adjustments to budget targets are not, in themselves, the method to improve financial status or to correct for ongoing budget deficiencies. As a result, we reserve the right to place community need and/or hospital solvency as our primary concern above and beyond the growth target stated above.

The GMCB may modify the above principles if circumstances require it, and would do so with prior notice to and input from stakeholders and the public.

Principles governing Net Patient Revenue growth for FY2014-FY2016

The GMCB will apply the FY14-16 principles for FY 2017, with the modifications noted below.

1) **Net patient revenue growth will be limited to 3%, except as explained below.**
2) **Additional net patient revenue growth of 0.4% beyond the 3% limit will be permitted for credible health care reform investments, as described above.**
3) **The GMCB will maintain the policy around physician transfer and acquisitions as outlined and modified in the updated document titled "Green Mountain Care Board Hospital Budget Policy: Physician transfer and/or Acquisitions".**
4) **The GMCB will maintain the policy around enforcement as outlined and modified in the updated document titled "Green Mountain Care Board Hospital Budget Policy: Enforcement for FY 2017 Hospital Budgets.**
5) **The GMCB will maintain and begin review of the filings as outlined and modified in the updated document titled "Green Mountain Care Board Hospital Budget Policy: Community Health Needs Assessments".**

The GMCB again thanks all who participated in the process of developing the above principles and areas for further study. We look forward to continued, strong stakeholder and public participation in the hospital budget process as we implement these principles.

Effective [DATE], 2016

Green Mountain Care Board
Hospital Budget Policy:
Community Health Needs Assessment

Introduction

Each year the Green Mountain Care Board (GMCB) provides the hospitals reporting instructions to complete their budget filing. The following will provide guidance to the hospitals to communicate to the Board the needs and priorities of their communities. This policy has been updated from the original policy adopted in May of 2013. *See* Green Mountain Care Board Hospital Budget Policy: Community Needs Assessment.
http://www.gmcboard.vermont.gov/sites/gmcboard/files/Hospital/Needs_Assessment_Policy.pdf

Background

The GMCB originally voted to include the Community Health Needs Assessment Policy when They adopted the "Guidance and Principles Governing the Green Mountain Care Board Hospital Budget Review Process for Fiscal Years 2014 through 2016." In that document, GMCB indicated its intention to incorporate in the budget review process consideration of hospitals' efforts to understand their communities' needs and priorities. This consideration includes the review of such information as:

- For each hospital facility (where applicable), the most current version of Schedule H that has been submitted to the Internal Revenue Service (IRS) as part of the hospital organization's Form 990 reporting obligations under Section 501(c)(3) of the Internal Revenue Code.

  Schedule H provides guidance on how the IRS defines "community benefit", and Schedule H provides facility-specific information regarding hospitals' community benefit spending in relation to other costs they incur, such as costs related to bad debt expenses or the cost of participation in Medicare. Schedule H is part of hospitals' tax reporting obligations and is designed to bring greater uniformity and transparency to defining, measuring, and reporting on hospitals' community benefit investments.

- For each hospital facility (where applicable), the Implementation Strategy described in Section 501(r)(3)(A)(ii) of the Internal Revenue Code (as added by section 9007 of the Patient Protection and Affordable Care Act (Pub. L. 111-148)) that has been adopted by the hospital's organization's governing board pursuant to IRS guidelines. The Implementation Strategy as submitted shall conform to the requirements of Section 6033(b)(15) of the Internal Revenue Code as added by Section 9007 of the Affordable Care Act and shall describe (i) how the hospital organization is addressing the needs identified in each community health needs assessment conducted under section 501(r)(3) of the Internal Revenue Code and (ii) any needs that are not being addressed, together with the reasons why such needs are not being addressed.

Section 9007 of the ACA calls for strengthening and clarifying the community benefit obligations of nonprofit hospitals that seek federal tax-exempt status. The ACA provisions add a Community Health Needs Assessment (CHNA) requirement to the Internal Revenue Code in order to promote hospital investments that reflect community health priorities. The ACA provisions also require all nonprofit hospitals to adopt an Implementation Strategy and describe how the Implementation Strategy meets the community health needs identified through the CHNA.

Reporting Instructions

Under the ACA, the CHNA must be made "widely available". The IRS has indicated that at a minimum widely available means the CHNA must be posted to the hospital's web site. The IRS has also encouraged hospitals to post the CHNA on other organizational websites along with clear instructions for obtaining the report from the hospital. Furthermore, a hospital organization and its facility must make the document available (in writing or electronically) to any individual who requests it. All of these requirements will make it easy for the GMCB to access a hospital's CHNA.

Since the Implementation Strategy is essentially the document that links hospital community benefit expenditures to assessed community health needs, the GMCB expects that many hospitals will post their Implementation Strategies on the hospital web site along with their CHNA. However, the IRS has not explicitly required the same widely available standard for Implementation Strategies as it has for CHNA. Therefore, to assure easy access to a hospital's Implementation Strategy, the GMCB requires all nonprofit hospitals to comply with the following requirements:

1) After the IRS adopts a final rule governing CHNAs and Implementation Strategies, the hospitals shall submit their most recent CHNA and Implementation Strategy to the GMCB. As of December 31, 2015, all hospitals have filed their implementation strategy and these filings are available on our website. Any updated or new implementation strategies will continue to be submitted as part of the FY 2017 Budget Narrative as listed in the FY 2017 Uniform Reporting Manual Supplement.

2) In the budget narrative, the GMCB will require that each hospital identify any new expenditures that are being requested to address the hospital's CHNA or Implementation Strategy.

3) The IRS requires all nonprofit hospitals to attach Schedule H to the 990 tax forms that all nonprofits file with the IRS annually. To provide more immediate access to this worksheet, the GMCB is requiring all nonprofit hospitals to submit their latest Schedule H to GMCB as part of their FY 2017 budget filing.

4) The GMCB will review the latest 990 Schedule H filings and prepare a summary that establishes the status of each hospital's report and their responses to the questions posed by the IRS. The GMCB will require hospitals to respond in writing as part of their 2017 budget

filing if it is determined that the questions in Schedule H have not been properly addressed or need clarification.

5) The GMCB review of the implementation strategy and the process used to obtain community feedback will require work and process outside of the budget review process. At this time, we will delay that work until resources are identified.

Taken together, the reporting obligations (Schedule H and hospitals' Implementation Strategies) offer transparent information regarding overall hospital expenditures on community benefit activities and other activities, as well as specific hospital expenditures whose specific purpose is to implement the CHNA. This data is essential to GMCB's hospital budget review process and commitment to advancing community health improvement and population health through all sectors of the Vermont health care system.

Effective [DATE], 2016

Green Mountain Care Board
Hospital Budget Policy:
Enforcement for FY 2017 Hospital Budget Submissions

Introduction

On February 21, 2013, the Green Mountain Care Board (GMCB) voted to adopt "Guidance and Principles Governing the Green Mountain Care Board Hospital Budget Review Process for Fiscal Years 2014 through 2016." In that document, the GMCB indicated its plan to "develop a more robust hospital budget enforcement process to ensure compliance with our policies." On May 2, 2013, the Board adopted a Policy on Enforcement for FY14-16 Hospital Budget Submissions. *See* Green Mountain Care Board Hospital Budget Policy: Enforcement for Fiscal Years 2014 – 2016. http://www.gmcboard.vermont.gov/sites/gmcboard/files/Hospital/Enforcement_Policy.pdf. In light of the significant potential changes to Vermont's health care system currently in play, the Board will use the same Enforcement Policy for FY17.

Background & Justification for This Policy

Vermont law requires that "[e]ach hospital shall operate within the budget established under this section." 18 V.S.A. § 9456(d). GMCB Rule 3.000 governs the hospital budget review process, including the parameters the GMCB uses to assess budget performance and adjustments. *See* GMCB Rule 3.000, § 3.401. In addition, the Board's annual Uniform Reporting Manual Supplement lays out a methodology to compare actual results to budget.

In adopting this policy for FY14-16, the GMCB found that Vermont hospitals' aggregate budget-to-actual performance improved since the early 2000s. Nevertheless, many hospitals exceeded net revenue thresholds over that time. Some of these budget-to-actual differences resulted from onetime events such as physician practice acquisitions or prior year Medicare settlements. However, several hospitals enjoyed greater reimbursement than forecasted. In such instances, prior to the Board's adoption of an enforcement policy in 2013, no meaningful regulatory action was taken.

The decision to extend the existing policy through FY17 stems in part from the fact that it has worked by enabling budget-to-actual comparisons to trigger adjustments in future budgets designed to effectuate budget targets. In addition, the criteria in the policy have proven transparent, understandable, and readily administrable.

For example, the GMCB applied the Enforcement Policy after reviewing 2014 actual operating results in March 2015. The Board found that three hospitals' actual performance exceeded their budgets to an extent triggering action under the Policy. The GMCB sent a letter was to those hospitals requiring them to propose a remedy in their 2016 budgets. In each case, the hospital did so by lowering its rate increase for the upcoming fiscal year. This enforcement mechanism enables the Board to initiate corrective action when a hospital's actual revenue diverges

significantly from its budgeted revenue, whether the cause relates to free care, disproportionate share payments, the migration of uninsured Vermonters into insurance plans, or any of the myriad factors that impact a hospital's revenue and expenses.

Enforcement Mechanism

The following enforcement mechanism, adopted in 2013 for FY14-16, has been re-adopted by the GMCB and will be used when examining the operating results of the FY 2017 budgets:

1) Net patient revenue (NPR) amounts as ordered will be enforced.
2) The GMCB will review hospitals whose year-end NPRs exceed the NPR requirement by 0.5% above or below their approved NPR. Such a review will not necessarily lead to action by the GMCB.
3) Budget reviews will compare each outlier to results of the total system.
4) Reporting requirements for the review will be determined by the GMCB.
5) The GMCB will afford the hospital the opportunity for a hearing, and may require a hearing if it deems one necessary.
6) If the GMCB determines that a hospital's performance has differed substantially from its budget, the GMCB may take actions including but not limited to (*see* GMCB Rule 3.000, § 3.401(c)):
    a) Reduce or increase in a hospital's rates;
    b) Reduce or increase net revenue and/or expenditure levels in current year budget;
    c) Use finding as a consideration to adjust the hospital's budget in a subsequent year or years; and
    d) Establish full budget review of actual operations for that budget year.

Effective [DATE], 2016

Green Mountain Care Board
Hospital Budget Policy:
Physician Transfer and/or Acquisitions

Introduction

Each year the Green Mountain Care Board (GMCB) provides the hospitals reporting instructions to complete their budget filing. The following will provide reporting guidance for physician transfer information as part of the budget filings for FY 2017 and for any "off cycle" transfers that occur during the current year budget. This policy has been updated from the original policy adopted in May of 2013. *See* Green Mountain Care Board Hospital Budget Policy: Physician Transfer and/or Acquisitions.
http://www.gmcboard.vermont.gov/sites/gmcboard/files/Hospital/HospitalBudget_Guidance_Physician%20Transfer_Update.pdf

As noted, in 2013 the Green Mountain Care Board (GMCB) voted to adopt "Guidance and Principles Governing the Green Mountain Care Board Hospital Budget Review Process for Fiscal Years 2014 through 2016." In that document, GMCB indicated its intention to "create an expedient process to review all physician transfers."

As explained in this document, the GMCB will implement that intention by gathering information about physician transfers[1] in a systematic way. This information-gathering process will enable the GMCB to analyze physician transfers reflected in a hospital's budget and any transfers that occur after the GMCB has approved the budget. This will allow the GMCB to understand the implications, if any, of those transactions on the hospitals' current-year and prospective budgets. The GMCB is not imposing a requirement that each physician transfer be approved by the GMCB separate from or in addition to the hospital budget review process.

Background

The GMCB is charged with improving the health of Vermonters while controlling and managing costs in the Vermont health care system. Measuring the growth in costs is one means to evaluate the performance of the GMCB's actions. In the hospital budget review process, the GMCB focuses on the budgeted year to year growth of the net patient revenues (NPR) in the hospital budgets. The underlying principle for this review is to limit growth to a pace comparable to the Vermont economy.

Vermont healthcare expenditures totaled $5 billion in 2011, and the hospitals comprised $2 billion of the total. In Vermont, the majority of practicing physicians are employed by hospitals. Approximately $600 million of physician revenue remains outside of the hospital setting. Independent practices are facing ever-increasing economic pressure to move into the hospital setting. Practices moving into the hospitals can create the impression of hyper-inflationary hospital budget growth, but may be, in whole or part, a simple transfer of dollars within the

[1] All references to "physician transfers" mean "physician transfers and/or acquisitions."

greater system. Further, physician transfers and acquisitions may occur independent of the budget review process, and by nature are time sensitive, and our reporting requirements need to recognize this reality. We also recognize that these transactions will affect the hospitals' NPR levels in the current and subsequent fiscal year.

Accordingly, the GMCB needs a consistent policy for examining hospital physician acquisitions and transfers to understand the net effect of these transactions on the growth in spending of the entire system, the extent to which the transaction will improve or maintain care to patients in the community, and the impact on the NPR, overall budget, and financial health of the hospital.

Confidentiality

The GMCB recognizes that, by gathering information about prospective transactions, it is placing hospitals in a sensitive position. Physician transfers, for a variety of reasons, generally cannot be made public while they are in the negotiation stage. Doing so would, for example, hamper the parties' ability to negotiate and would place the parties at a competitive disadvantage with respect to non-party hospitals or other providers. Vermont's Public Records Act exempts from public disclosure "information . . . which gives its user or owner an opportunity to obtain business advantage over competitors who do not know it or use it," 1 V.S.A. § 317(c)(9), and records related to contract negotiations, 1 V.S.A. § 317(c)(15). Accordingly, hospitals may request that the GMCB keep such information confidential and, assuming the information meets either or both of the above statutory exemptions, the GMCB will treat it as confidential.

Reporting documents

The GMCB will require hospitals to provide the following information when proposing a *physician transfer.* The schedules below reflect the GMCB's current view of its informational needs, and the GMCB looks forward to working with the hospitals to evolve these information-gathering tools over time. Both a full annualized effect and a partial year effect need to be completed for any mid-year physician acquisition/transfer that is being considered. The hospital may file any other information it deems appropriate to describe the transfer or will better inform the GMCB.

1) Annual Budget Submission – budget within the 3% cap
   a. Neither budget schedule A or B will be required. These documents are found on pages 23-24 of this document.
   b. Physician budget detail will be reported as described in the GMCB User's Guide for Adaptive Insights.
   c. The narrative will include a brief description of the transfer as outlined on page 6 of this document.

2) Annual Budget Submission – budget above the 3% cap
   a. Budget Schedule A will be required to provide financial information about why the transaction is budget neutral.
   b. Physician budget detail will be reported as described in the GMCB User's Guide for Adaptive Insights.
   c. The narrative will include a brief description of the transfer as outlined on page 6 of this document.

3) "Off cycle" Budget change - physician transfer/acquisition that occurs after the budget is approved
   a. Budget Schedule A will be required to provide financial information about why the transaction is budget neutral.
   b. Budget Schedule B will be required to provide financial information about the effect on the current year and the next projected budget.
   c. A narrative will be completed to describe the physician transfer and any related issues.

Physician Practice Transfer and/or Acquisitions Worksheet - Budget Schedule A

Hospital Name:	
Physician Practice Name:	
Effective Date of Transfer or Acquisition:	

Note: This information should be submitted 30 days prior to the effective date of the transfer

Physician Practice Financial Information

	A	B	C
	Prior Year 12 Months	Current Year Projection 12 Months	Partial Current Year Projections
Gross Patient Care Revenue			
Deductions from Revenue			
Net Patient Revenue - Physician			
Provider Salaries			
Provider Fringe Benefits			
Staff Wages & Benefits (Non MD)			
Malpractice			
Depreciation/Amortization			
Rent			
Billing Service			
Medical/Surgical Supplies			
Other Costs			
Total Operating Expense	$ -	$ -	$ -
Net Operating Income/Loss	$ -	$ -	$ -
Utilization			
Relative Value - Units of Service			

A: The operations of the practice for the previous 12 months.
B: The operations of the practice for the projected year (12 months).
C: The operations of the practice from the beginning effective date of transfer to year end.

Physician Practice Transfer and/or Acquisitions Worksheet - Budget Schedule B

Hospital Name:	
Physician Practice Name:	
Effective Date of Transfer or Acquisition:	

Note: This information should be submitted 30 days prior to the effective date of the transfer

Hospital Budget and Physician Practice Financial Information

Partial Year Effect

	Prior Year 12 Months Actual	Current Year Approved Budget (12 Months)	Partial Current Year Projections	Final Current Year Budget Including Change	% Change from Orig Budget
Net Patient Revenue - Hospital			$ -	$ -	#DIV/0!
Net Patient Revenue - Physician				$ -	#DIV/0!
Total Net Patient Revenue	$ -	$ -	$ -	$ -	#DIV/0!
Other Operating Revenue					#DIV/0!
Expenses - Hospital			$ -	$ -	#DIV/0!
Expenses - Physician				$ -	
Total Expenses	$ -	$ -	$ -	$ -	#DIV/0!
Surplus	$ -	$ -	$ -	$ -	

Annualized Effect

		Current Year Approved Budget (12 Months)	Annualized	Budget for Next FY Including Change	% Change from Orig Budget
Net Patient Revenue - Hospital	$ -	$ -	$ -	$ -	#DIV/0!
Net Patient Revenue - Physician	$ -	$ -	$ -	$ -	#DIV/0!
	$ -	$ -	$ -	$ -	#DIV/0!
Other Operating Revenue					#DIV/0!
Expenses - Hospital	$ -	$ -	$ -	$ -	#DIV/0!
Expenses - Physician	$ -	$ -	$ -	$ -	
	$ -	$ -	$ -	$ -	#DIV/0!
Surplus	$ -	$ -	$ -	$ -	

Updated 1/8/15.

Budget Schedules A & B have been updated as of 1/8/15. For an Excel version of these schedules please visit our website at http://www.gmcboard.vermont.gov/hospital_budgets/policies or call Janeen Morrison (802-828-2903).

Effective [DATE], 2016