

To: Green Mountain Care Board
From: Mike Davis, Director of Health System Finances
Re: Hospital Budget Physician Transfer and Acquisition Policy
Date: December 12, 2016

The GMCB's policy for net patient revenue (NPR) change is designed to contain hospital NPR growth. When establishing a hospital's budget during the annual budget review process, the GMCB measures hospital budget growth, in large part, by evaluating the increase in NPR against the GMCB's target NPR increase. Under current GMCB policy, a hospital will be "held harmless" for revenue increases related to physician transfer/acquisitions that are explained and documented in accordance with the GMCB policy.

When the transfers/acquisitions occur after the Board establishes the budgets on October 1, however, the policy fails to address how such transfers should be accounted for by an acquiring hospital mid-year, or how its budget should be updated prior to its July 1 annual budget submission. As a consequence of the failure to update and formally establish the revised budget, a hospital's NPR change from budget-to-budget is typically overstated for the following fiscal year.

To correct this problem, I am recommending that the Board change its policy on physician transfers/acquisitions so that updated budget information relating to such transfers is reported to the GMCB and the hospital's budget is revised and established when appropriate. A proposed updated policy is attached. If adopted, the policy will:

- Formalize the reporting process,
- provide a more accurate and complete budget record,
- make the budget change more timely, and,
- provide a more accurate NPR change from one budget year to the next.