

STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

AMENDMENT TO FY 2019 HOSPITAL BUDGET ORDER

In re: Gifford Medical Center)	Docket No. 18-005-H
Fiscal Year 2019)	
_____)	

INTRODUCTION

On July 2, 2018, Gifford Medical Center (Gifford) submitted a Fiscal Year 2019 (FY19) budget to the Green Mountain Care Board (GMCB or Board). Gifford sought a -6.1% change in net patient revenue (NPR) and a rate (permitted average charge) increase of 4.0%. *In re: Gifford Med. Ctr. Fiscal Year 2019*, Doc. No. 18-005-H (GMCB 2018). On September 11, 2018, the Board approved a FY19 budget for Gifford that included the -6.1% change in NPR that the hospital had requested. However, the Board approved a rate increase of 2.75% or 1.25% below the increase Gifford had requested. *Id.*

On February 14, 2019, Gifford asked the Board to modify the FY19 budget order and “approve an average charge increase of 1.25%” to go into effect March 18, 2019. Letter from Daniel A. Bennett, President & CEO, Gifford Med. Ctr., to Kevin Mullin, Chairman, GMCB (Feb. 14, 2019) (“Bennett Letter I”).¹ Specifically, Gifford sought this amendment to invest in its workforce and improve its financial health. *Id.*

On March 13, 2019, the Board unanimously approved Gifford’s request for the reasons set forth below.

LEGAL FRAMEWORK

One of the Board’s core regulatory responsibilities is to review, approve, and monitor the budgets of Vermont’s 14 community hospitals. 18 V.S.A §§ 9374(b)(7), 9456. The Board’s oversight of hospital budgets is guided by its statutory charge “to promote the general good of the state by: (1) improving the health of the population; (2) reducing the per capita rate of growth in expenditures for health services in Vermont across all payers while ensuring that access to care and quality of care are not compromised; (3) enhancing the patient and health care professional experience of care; (4) recruiting and retaining high quality health care professionals; and (5) achieving administrative simplification in health care financing and delivery.” 18 V.S.A. § 9372.

¹ Materials filed in support of Gifford’s request are available on the Hospital Budget portion of the GMCB website. <https://gmcboard.vermont.gov/content/fy19-individual-hospital-budget-information>. Materials related to board meeting presentations are available on the Meeting Information portion of the GMCB website. <https://gmcboard.vermont.gov/board>.

In response to its own review of the hospital's performance or to a request from the hospital, the Board may adjust a previously established budget "upon a showing of need based upon exceptional or unforeseen circumstances." 18 V.S.A. § 9456(f); GMCB R. 3.000, § 3.401. When considering a possible adjustment, the Board considers the following factors:

- (1) The variability of a hospital's actual revenues, taking into account the resources of payers and the methods of payment used by the payers;
- (2) The hospital's ability to limit services to meet its budget, consistent with its obligations to provide appropriate care for all patients;
- (3) The financial position of the hospital in relation to other hospitals and to the health care system as a whole, using the statistics developed from information submitted in compliance with the uniform reporting manual;
- (4) The hospital's performance under budgets identified or established under subchapter 7 of Chapter 221 of Title 18 of Vermont Statutes Annotated for the previous three years and its budget projections for the next three years; and
- (5) Any other considerations deemed appropriate by the Board, including but not limited to other instances in which a hospital has less than full control over the expenditures limited by the budget.

GMCB R. 3.000, § 3.401(a)(1)-(5).

If the Board concludes a "hospital's performance has differed substantially from its budget," the Board may make appropriate adjustments to the hospital's current and future budgets. *See id.* § 3.401(c); *see also* 18 V.S.A. § 9456 (h)(2)(B)(i)(II) ("The Board may order a hospital to take such corrective measures as are necessary to remediate. . . the deviation. . ."). Appropriate adjustments may include "allowing hospital rates (charges) to be increased for a hospital with a deficit caused by revenues that were less than projected, but whose actual expenditures were within budget limits." GMCB R. 3.000, § 3.401(c)(3).

REVIEW PROCESS

The Board established Gifford's FY19 budget on September 11, 2018. *In re: Gifford*, Doc. No. 18-005-H. On February 14, 2019, Gifford asked the Board to amend its FY19 budget order, approving an increase of 1.25% to Gifford's permitted average charge, effective March 18, 2019. Bennett Letter I. In response to a request from the Board, Gifford submitted additional information and documentation on March 4, 2019 in support of the requested adjustment. Daniel A. Bennett, President & CEO, Gifford Med. Ctr., to Kevin Mullin, Chairman, GMCB (Mar. 4, 2019) ("Bennett Letter II").

GMCB staff and Gifford President and CEO Daniel Bennett presented on this amendment request at public meetings held February 20, 2019 and March 13, 2019. The Board did not receive any public comment related to this amendment. On March 13, 2019, Board voted unanimously to approve the amendment to Gifford's FY19 budget.

FINDINGS

1. In recent years, critical access hospitals (CAHs) in Vermont and throughout the country have faced increasing financial challenges driven by several factors including “decrease[s] in patients seeking inpatient care and across-the-board Medicare payment reductions.” Government Accounting Office (GAO), Rural Hospital Closures: Number and Characteristics of Affected Hospitals and Contributing Factors, 23 (Sept. 2018) (GAO Report).² Because of these financial struggles, many CAHs have closed, leaving those who live in rural areas without access to basic medical services and emergency care. *See id* at 1.
2. Gifford is one of eight CAHs in Vermont that have faced recent financial challenges. CAH Report, 1. For the past two years (FY17 and FY18), Gifford has had negative operating margins (-1.6% and -10.7%, respectively). CAH Report, 4; Bennett Letter II, attach. 2.
3. The Board approved Gifford’s FY19 budget on September 11, 2018, setting the following parameters:
 - NPR of \$55,849,653 or -6.1% growth (inclusive of the health care reform investment allowance of 0.4%) as compared to Gifford’s FY18 budget;
 - An increase of 2.75% in average charges (rate) as compared to Gifford’s FY18 budget.

In re Gifford, Doc. No. 18-005-H, Order, ¶¶ A-D.

4. On February 14, 2019, Gifford submitted a letter of intent asking that the Board amend the FY19 budget order to approve an average charge increase of 1.25% – from 2.75% to 4.0% – effective March 18, 2019. Bennett Letter I. Gifford asked for this 1.25% increase to align the Board-approved increase with the average charge increase Gifford initially requested in its FY19 budget submission.³ *Id.* Gifford intends to use the additional income generated by the charge increase to support investment in its workforce and improve its overall financial health. *Id.*
5. Gifford’s Board of Trustees authorized Gifford’s management to request this amendment on January 24, 2019. *Id.*

Workforce Investment

6. Despite challenging conditions in Vermont’s health care work force, Gifford has worked to

² Available at <https://www.gao.gov/assets/700/694125.pdf>; see also GMCB, Report on Financial Health of Vermont’s Critical Access Hospitals, 9 (Jan. 2019) (CAH Report) available at <https://gmcbboard.vermont.gov/sites/gmcb/files/Merged%20letter%20and%20CAH%20report%201.9.2019.pdf>.

³ In its budget proposal for FY19, Gifford requested an average charge increase of 4.00%. *In re Gifford*, Doc. No. 18-005-H, 4-5.

recruit qualified permanent employees to staff positions it had previously staffed with temporary/traveling employees. Bennett Letter I, 2. During FY18, Gifford spent \$755,000 on temporary staffing, but because of its new permanent employees, it expects to spend half that amount in FY19. *Id.* However, to retain its permanent employees, Gifford considers it critical to invest in its workforce. *Id.*

7. Historically, Gifford provided a “modest annual pay increase” to its non-contracted employees. *Id.* at 1. However, because of recent financial struggles, Gifford’s permanent employees have not received a raise in almost two years. *Id.*
8. Respondents to recent employee surveys confirm employee dissatisfaction with compensation, with more than half reporting they considered their compensation lower than market expectations. *Id.* Gifford believes pay increases will help it maintain a qualified permanent workforce. *Id.*
9. Additionally, Gifford has clinical placement programs with two local colleges – Vermont Technical College and Norwich University. Statement from Daniel A. Bennett, GMCB Board Meeting (Mar. 13, 2019).⁴ Gifford offers students and recent graduates on-the-job training and hires many students into permanent positions following graduation. *Id.*

Overall Financial Health

10. Gifford has experienced poor operating margins, particularly during the last two fiscal years, largely due to decreased utilization due to provider vacancies and lower reimbursement rates, and is currently operating at a loss. Bennett Letter I, 2; GMCB PowerPoint (Mar. 13, 2019), 3; CAH Report, 4. However, Gifford currently has 210 days cash on hand, which is a relatively healthy position at this time in comparison to Vermont’s other CAHs. GMCB PowerPoint (Mar. 13, 2019), 3; CAH Report, 6.
11. Gifford’s facilities are older in comparison to other Vermont CAHs and its debt to capital ratio is relatively high (in both categories, Gifford ranks sixth out of the eight CAHs). CAH Report, 4; *see also* Bennett Letter I, 2. Because its facilities are older and its debt load is heavier, Gifford is more likely to have capital investment needs, which it would have to fund using its cash and invested assets. Bennett Letter I, 2. If Gifford continues to operate at negative margins, it will deplete its cash and may be unable to make needed capital investments in the future. *See* Bennett Letter I, 2; *see also* CAH Report, 2.
12. During the past two years, Gifford has worked to reduce its expenditures. Bennett Letter II, 1. It has created a “workgroup of leaders” tasked with developing, implementing, and tracking cost reduction strategies. *Id.* Gifford reduced its FY18 expenses by \$1.4 million as compared to its FY17 expenses. Bennett Letter I, 2. In the first quarter of FY19, Gifford reduced its expenses by \$1.2 million compared to its first quarter expenses in FY18. Bennett Letter II, 1. Gifford’s cost-savings efforts are evident through its entire system, from changes

⁴ Video recordings of GMCB Meetings are available at <http://www.orcamedia.net/>.

to staffing (yielding tens of thousands of dollars in savings) to changes in office supply procurement (yielding hundreds of dollars in savings). *See* Bennett Letter II, attach. 1.

13. Gifford's workgroup has identified more than \$500,000 in additional savings it intends to implement in FY19. Bennett Letter II, 1. Specifically, those savings will be achieved through changes to vendor contracts (more than \$250,000), personnel (more than \$280,000), and other expenses (more than \$12,000). *Id.*
14. Gifford anticipates the requested increase in average charges will generate approximately \$300,000 in net patient revenue during the remainder of FY19 and \$565,000 per year going forward. Bennett Letter II, 1.
15. As a result of the increased NPR, Gifford projects it would close FY19 with a 0.5% increase in its FY19 operating margin. Bennett Letter II, attach. 2. If the current charges continued through the remainder of FY19, Gifford expects its operating margin will be 0.4%. *Id.* However, if Gifford raised its charges as requested, Gifford projects a FY19 operating margin of 0.9%. *Id.*

CONCLUSIONS

As the Board works to improve the health of Vermonters while reducing the per capita growth rate of health care costs and maintaining access to care, it remains committed to working with health care providers and other stakeholders to address the financial challenges facing Vermont's hospitals. *See, e.g.,* CAH Report, 12. Part of that commitment includes review of multiple financial performance metrics, individualized analysis of specific circumstances each hospital faces, and collaboration with hospital officials to identify and implement the most appropriate solutions given the larger, systemic goals. *See generally* CAH Report. CAHs are an important part of health care reform efforts, in part because they provide rural Vermonters with access to necessary health care services. *Id.* at 9 (citing GAO Report).

Gifford provided detailed information to support its request to amend its FY19 budget. That information included the underlying rationale for the request and how Gifford intends to use the added NPR to support the workforce challenges and decreased utilization and reimbursement rates. In approving an FY19 rate increase that was 1.25% lower than Gifford requested, "[w]e [were] concerned that the hospital [was relying] on its budgeted rate to address ongoing financial issues." *In re Gifford*, Doc. No. 18-005-H, Conclusions. We concluded that Gifford "must consider other business changes, such as additional expense reductions and operational efficiencies, to achieve a positive margin." *Id.* In seeking this budget adjustment, Gifford demonstrated that it has worked diligently to resolve its negative operating margins through cost cutting measures and, in light of Gifford's specific financial circumstances and the factors described above, we believe Gifford has justified its request.

Accordingly, we approve the requested amendment to Gifford's FY19 budget order.

ORDER

Based on our findings and authority granted by Chapter 221, Subchapter 7 of Title 18, we amend Gifford Medical Center’s FY19 Budget Order, approved on September 11, 2018, as follows:

Effective March 18, 2019, Gifford’s overall rate (average charge) is increased an additional 1.25% over the rate previously established in *In re Gifford*, Doc. No. 18-005-H, Order B.

So ordered.

Dated: April 2, 2019
Montpelier, Vermont

<u>s/ Kevin Mullin, Chair</u>)	
<u>s/ Jessica Holmes</u>)	GREEN MOUNTAIN
<u>s/ Robin Lunge</u>)	CARE BOARD
<u>s/ Tom Pelham</u>)	OF VERMONT
<u>s/ Maureen Usifer</u>)	

Filed: April 2, 2019

Attest: s/ Jean Stetter
Green Mountain Care Board
Administrative Services Director

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Attachment: FY19 Budget Order

The Board first adopted guidelines for the hospital budget review process in 2013, and last updated them this past April.² As a key performance indicator for FY19, the Board set an overall system NPR³ growth target of 2.8% over each hospital's approved FY18 budget base. The Board established an additional NPR growth allowance of up to 0.4% for health care reform activities, investments and initiatives that reduce health care costs and improve quality of care over the long term by 1) supporting the transition toward value-based purchasing, 2) increasing access to primary care, 3) reducing deaths from suicide and/or drug overdose, and/or 4) reducing the prevalence and/or morbidity of chronic disease. Hospitals requesting the additional allowance must specifically identify the health reform investment(s) in their budgets and provide a plan to measure the return on investment.

FY19 Review Process

The Board and its staff have reviewed and analyzed FY19 budget information submitted by the hospitals which includes detailed financial information, payment and delivery reform investments, utilization data, population health goals, quality measure results, provision of mental health services, patient access data, budget-to-budget NPR growth rates, prior budget performance, and requested rate increases. In addition, the Board has taken into consideration comments from the Office of the Health Care Advocate (HCA) and from members of the public. The Board considered each hospital's unique circumstances, including its health care reform efforts and its efforts to address issues identified in its community health needs assessment (CHNA).

As submitted for FY19, the hospitals requested a system-wide NPR increase of 2.9% over their FY18 base NPR. Most hospitals included health care reform investments at the 0.4% allowance. Following presentations by hospital leadership, ongoing discussions between Board members, GMCB staff and the hospitals, input from members of the public and the HCA, and Board-approved adjustments to some hospitals' FY18 base NPR⁴, we establish an actual system-wide hospital NPR growth rate over FY18 of 2.1%.

In addition, the Board has reviewed each hospital's proposed rate increase, which is the average overall amount by which a hospital increases its charges.⁵ Notably, each respective payer—Medicare, Medicaid and commercial—does not reimburse each hospital the same amount for the same services. For example, commercial payers can negotiate reimbursements with each hospital separately, resulting in pricing variations, while Medicaid and Medicare prices are not typically negotiable and reimbursement is instead established through each payer's

² The FY19 Hospital Budget Guidance and Reporting Requirements are available at <http://gmcboard.vermont.gov/sites/gmcb/files/GMCB%20FY19%20Hospital%20Budget%20Guidance%20%20Reporting%20Requirements%20Final%20Apr23%20Update.pdf>.

³ NPR is a key indicator used to assess changes in hospital budgets and includes payments received from patients, government, and insurers for patient care, but does not include hospital revenues from activities such as cafeterias, parking, and philanthropy.

⁴ After Board-approved adjustments to hospitals' FY18 base NPR were finalized on September 11 and 12, the hospital-proposed systemwide NPR growth rate was 2.2%.

⁵ Actual changes in the rates charged by the hospital will vary across service lines and goods and services provided by the hospital.

unique fee schedule and update factors. Taking into consideration all adjustments, we reduce the estimated overall system weighted average rate increase from the submitted 3.1% to 2.7%.

Finally, as we move into Year 2 of the All-Payer ACO Model Agreement, the Board, through a transparent public process, will continue to refine how it conducts its hospital budget, ACO budget and certification, and health insurance rate review processes to better understand and align its regulatory work. We encourage the hospitals to continue their efforts to favorably position their institutions, individual providers, and their served populations as we move away from a fragmented, fee-for-service system to an integrated delivery system and value-based provider reimbursements.

Based on the above, the Board issues the following Findings, Conclusions and Order:

Findings

1. Gifford Medical Center is a critical access community hospital with its primary location in Randolph. The hospital is part of Gifford Health Care, a Federally Qualified Health Center. The hospital's FY19 submitted NPR accounted for approximately 2.1% of the total submitted NPR for all 14 regulated hospitals in the State.
2. Gifford submitted its FY19 budget on July 2, 2018, including total NPR of \$55,894,653, and seeking a -6.1% change in NPR of (\$3,619,357) from budgeted FY18 and a requested rate increase of 4.0%.
3. Gifford requests an additional 0.4%, or \$238,056, for health care reform investments. Gifford reported investments in information technology supporting population health goals that exceed the 0.4% allowance.
4. Gifford's FY19 budget includes total operating expenses in the amount of \$55,346,116, a decrease of approximately 6.3% from budgeted FY18.
5. Gifford's budget includes reasonable estimates of \$19,624,206 in Medicare NPR, a decrease of 6.1% from budgeted FY18, and an increase of 9.9% over projected FY18.
6. Gifford's FY19 budget includes reasonable estimates of \$4,044,543 in Medicaid NPR, a decrease of 16.8% from budgeted FY18, and an increase of 15.5% from projected FY18.
7. Gifford's FY19 budget includes reasonable estimates of \$31,671,105 in commercial NPR, a decrease of 4.3% from budgeted FY18, and an increase of 9.6% over projected FY18.
8. Gifford is not participating in any ACO programs in 2018, but plans to participate in the Medicaid Next Generation ACO program in 2019.
9. Gifford has recently hired two surgeons and two family practitioners for vacant positions, and anticipates productivity will increase following the recent implementation of its Electronic Medical Record (EMR).

10. Gifford's growth in NPR from projected FY18 to budgeted FY19 is 9.8%.
11. For FY19, Gifford has budgeted an operating margin of \$1,415,013, approximately 2.5%, and a total margin of 3.9%. Gifford projects a negative margin in FY18.
12. The FY19 budget indicates 177.5 days cash on hand.
13. Based on identified community needs, Gifford has worked to develop programs to address the lack of preventative health care and access to health care, need for substance abuse services, obesity and healthy lifestyle choices, and lack of dental care.
14. Gifford's narrative, testimony, and other filed budget information comply with the Board's FY19 hospital budget requirements.
15. After reviewing Gifford's submission, the Board and the HCA posed written questions and the hospital provided written responses. Gifford participated in a public hearing before the Board on August 20, 2018, where it presented information and answered questions from the Board and the HCA, and the Board discussed all 14 hospital budgets at subsequent public meetings. On September 11, 2018, the Board established Gifford's FY19 budget.⁶
16. Approving Gifford's budget as outlined below will promote the efficient and economic operation of the hospital, and is consistent with the current Health Resource Allocation Plan (HRAP).

Conclusions

The Board first approves Gifford's requested NPR, which at -6.1% falls well below the Board's target, as set forth in its FY19 Guidance.

After discussion among the Board members at two consecutive meetings, we reduce Gifford's budgeted 4.0% increase in rate to 2.75%. We are concerned that the hospital has relied on its budgeted rate to address ongoing financial issues, and must consider other business changes, such as additional expense reductions and operational efficiencies, to achieve a positive margin. We note that the increase approved by the Board does not constrain negotiations between the hospital and insurers and that actual prices paid by Vermont commercial ratepayers for health care services should reflect underlying cost and market rates for comparable services.

The Board therefore establishes Gifford's FY19 Net Patient Revenue at \$55,894,653, a decrease of -6.1% from its FY18 budget, and approves a 2.75% increase in rate.

⁶ On September 12, 2018, Gifford sent a written request that the Board reconsider its decision regarding a reduction in rate. The Board did not reconsider its decision.

Order

Based on our findings and authority granted by Chapter 221, Subchapter 7 of Title 18, Gifford's budget is approved for FY19 subject to the following terms and conditions:

- A. Gifford's FY19 NPR budget is approved at -6.1% growth over its FY18 budget inclusive of a 0.4% allowance for health care reform investments, or \$55,894,653.
- B. Gifford's overall rate is established at 2.75% over current approved levels.
- C. Beginning on or before November 19, 2018 and every month thereafter, Gifford shall file with the Board the actual year-to-date FY19 operating results for the prior month. The report shall be in a form and manner as prescribed by the Board.
- D. Gifford shall advise the Board of any material changes to FY19 revenues and expenses, or to the assumptions used in determining its budget, including:
 - a. changes in Medicaid, Commercial, or Medicare reimbursement;
 - b. additions or reductions in programs or services to patients; and
 - c. any other event that could materially change the approved NPR budget.
- E. On or before January 31, 2019, Gifford shall file with the Board, in a form and manner prescribed by the Board, such information as the Board determines necessary to review the Hospital's FY18 actual operating results in order to determine whether the Hospital's budget meets the Board's budget performance review policy.
- F. On or before January 31, 2019, Gifford shall file with the Board one copy of its FY18 audited financial statements and associated management letter(s), as well as the hospital's parent organization's audited consolidated financial statements, if applicable.
- G. Gifford shall timely file all forms as required for physician acquisitions and/or transfers, if applicable.
- H. Gifford shall consult with Vermont Information Technology Leaders (VITL) to facilitate patients' ability to electronically consent to adding their clinical data to the Vermont Health Information Exchange (VHIE).
- I. Gifford shall explore the option of providing health insurance coverage for its employees through a self-insured program that participates in OneCare Vermont, if the hospital provides a self-insured program.
- J. After notice and an opportunity to be heard, the GMCB may amend the provisions contained herein, and issue an Amended Order, consistent with its authority as set forth in 18 V.S.A. Chapter 220, Subchapter 1, 18 V.S.A. Chapter 221, Subchapter 7, and GMCB Rule 3.000.

- K. All materials required above shall be provided electronically, unless doing so is not practicable.
- L. The findings and orders contained in this decision do not constrain the Board's decisions in future hospital budget reviews, future certificate of need reviews, or any other future regulatory or policy decisions.

So ordered.

Dated: September 28, 2018
 Montpelier, Vermont

s/ <u>Kevin Mullin, Chair</u>)	
)	GREEN MOUNTAIN
s/ <u>Jessica Holmes</u>)	CARE BOARD
)	OF VERMONT
s/ <u>Robin Lunge</u>)	
)	
s/ <u>Tom Pelham</u>)	
)	
s/ <u>Maureen Usifer</u>)	

Filed: September 28, 2018

Attest: s/ Jean Stetter
 Green Mountain Care Board
 Administrative Services Director

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