

April 6, 2019

Chair Kevin Mullin  
Green Mountain Care Board  
144 State Street  
Montpelier, VT 05602

Dear Chair Mullin:

I write to provide the Green Mountain Care Board with additional information in advance of its April 8, 2019 discussion regarding a possible enforcement hearing with respect to Porter Hospital's FY 2018 financial results. For the reasons set forth below, we respectfully suggest that a budget enforcement hearing would be at odds with the Board's recently expressed concerns regarding the financial health of Vermont's rural hospitals, its budget guidance, and its prior budget decisions.

On April 3, 2019, the GMCB hosted a timely forum that highlighted the existential financial pressures facing rural hospitals in Vermont and across the country. As you know, Porter has not been immune to those pressures. Prior to FY 2017, Porter Hospital faced eight straight years of below-budget performance, and it posted negative operating margins from 2012 through late 2016. It was only two years ago, in FY 2017, that Porter began to regain the financial stability necessary to ensure that it will be able to continue to serve its community over the long term. Porter was able to accomplish this feat by implementing many of the same innovative strategies highlighted by Eric Shell, the Board's keynote speaker at last week's forum:

- Porter has embraced alternative payment models, becoming the first critical access hospital in Vermont (and therefore the country) to participate in the All Payer Model ("APM"). Porter was also the first critical access hospital to enlist with the ACO to take fixed prospective payments through all three payment programs.
- Through the APM, Porter has aligned its investments in primary care with the hospital's financial success.
- Porter joined an integrated health delivery system, allowing it to optimize the delivery of appropriate care as close to patients' homes as possible, which also aligns with the hospital's financial success. A few examples of services that have been expanded or established by partnering with the UVM Health Network include Infusion Services, Porter's Palliative Care program, and in the coming months Cardiac Rehabilitation.
- Porter has responsibly controlled expenses where necessary to achieve financial stability.

These initiatives have required Porter to invest significant resources to develop the foundational infrastructure necessary to operationalize the shift to value-based care and alternative payment models. Porter has thus far succeeded in balancing the clinical and financial requirements of this shift but, to use Mr. Shell's metaphor, it remains on the tightrope between fee-for-service and value-based worlds.

As a result, even with these reform efforts, Porter's recovery remains fragile, and its continued financial stability is not guaranteed. ***For instance, in FY 2019 year-to-date, Porter's net patient revenue, including fixed prospective payments, is running 2.3% below its approved budget.*** By the end of the fiscal year, we anticipate that Porter will, at best, achieve its budgeted revenue for the year. As a result, we currently have no concern that Porter will exceed the Board's enforcement threshold next year.

Against this background, the idea of holding budget enforcement hearings with respect to Porter is at fundamental odds with the Board's stated desire to strengthen, rather than erode, the financial health of Vermont's critical access hospitals. It is also in conflict with the Board's repeated efforts to encourage those hospitals to take the innovative steps necessary to secure their ability to continue to serve their communities. Put differently, an enforcement hearing would raise the prospect of punishing Porter for beginning to achieve the financial stability that has eluded many other critical access hospitals and for taking precisely the steps that the Board and the State are asking Vermont's rural hospitals to take.

The Board's prior budget approval and enforcement orders also weigh strongly against holding an enforcement hearing. As this Board is aware, in March 2018, the GMCB voted to rebase Porter for its FY 2019 budget submission, recognizing that Porter's FY 2017 actual financial results, rather than its original FY 2018 budget, represented the most accurate starting point for assessing its future revenue. Porter's FY 2019 budget guidance was therefore built upon a rebased FY 2018 budget of \$80,862,127, rather than the originally approved \$78,348,499. The Board has since reaffirmed this methodology in a number of public presentations, all of which reference Porter's rebased FY 2018 budget target.

In order to apply a rational regulatory framework, the Board must also measure Porter's actual FY 2018 results against that rebased, rather than its original, budget. To do otherwise would be entirely inconsistent with the fundamental premise of both the Board's March 2018 enforcement order and its approval of Porter's FY 2019 budget. Taking that rebasing into account, ***Porter Hospital's FY 2018 NPR was 0.64% below its rebased budget.*** That result does not trigger an enforcement hearing under GMCB guidance; rather, it cautions in favor of continued and vigilant attention to Porter's financial health.

Throughout the course of the past fiscal year, Porter clearly and repeatedly communicated to the GMCB that, consistent with the Board's prior orders, it expected its NPR to exceed its original FY 2018 budget but be in line with its rebased FY 2018 budget. In its July 2018 budget narrative, Porter transparently reported to the Board that, as expected, its YTD net revenue was

well ahead of its original budget but more closely in line with its “rebased FY 2018 budget.” During the subsequent budget hearing, I accurately testified under oath that “Porter’s net patient revenue is anticipated to be in line with our rebased budget.” Porter also provides Board staff with monthly reports on its financial performance, and all of those reports showed that, as everyone expected, Porter’s FY 2018 revenues exceeded its original budget and tracked closely to its rebased FY 2018 budget. During post-budget hearing deliberations, the GMCB staff reported to the Board that Porter’s FY 2018 projection “has been revised and is now very close to rebased FY18” budget. Of course, all of these periodic reports and responses also reinforce the parties’ shared understanding that Porter’s actual results would ultimately be compared to the rebased FY 2018 budget.

Finally, I want to emphasize the level of importance our organization places on every form of communication with the GMCB and its staff. We take our role in the budget process extremely seriously, and we pride ourselves on being honest, transparent, respectful, collaborative, and willing to provide as much information as possible, whether it is requested or not. These same attributes make the prospect of preparing for an unnecessary budget enforcement hearing a very labor-intensive and difficult one, particularly as our entire financial team works to build our FY 2020 budget.

Porter always remains available to provide additional financial information to Board staff and Board members at their request. However, for the reasons set forth above, that exchange should not take the form of a budget enforcement hearing.

Respectfully,

*J. Bertrand*

Jennifer Bertrand  
Chief Financial Officer