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[Delivered Electronically]

January 9, 2019

The Honorable Philip B. Scott
The Office of the Governor
109 State Street
Montpelier, Vermont 05609

Dear Governor Scott:

The attached report is the Green Mountain Care Board's initial response to the following request from your December 26, 2018 letter:

“Given recent revelations about the serious financial challenges at Springfield Hospital, I request that the Green Mountain Care Board re-evaluate all of Vermont's Critical Access Hospitals and report back in the near-term about their financial health.”

The report contains an initial re-assessment of financial health based on information reported by each Critical Access Hospital (CAH) in Vermont. The report also contains a description of the Board's future approach to assessing financial health for all Vermont hospitals, regardless of designation. The Board intends to augment this report with additional analysis in April 2019.

The members of the GMCB appreciate the resources and expertise that you, Secretary Gobeille, and your respective staffs have provided as we work together to address this serious financial situation faced by Springfield Hospital and Springfield Medical Care Systems, and the people served by these health care organizations. I want to emphasize our commitment to work diligently and collaboratively to find solutions that are in the best interests of those who rely on Springfield Hospital and the State as a whole.

Sincerely,



Kevin Mullin, Chair
Green Mountain Care Board

Cc: Jason Gibbs, Chief of Staff



Report on Financial Health of Vermont's Critical Access Hospitals

January 9, 2019

Prepared for:
Governor Philip B. Scott

Prepared by:

Green Mountain Care Board • 144 State Street • Montpelier, VT

Report on Financial Health of Vermont’s Critical Access Hospitals

Governor Philip B. Scott requested the following by letter on December 26, 2018:

“Given recent revelations about the serious financial challenges at Springfield Hospital, I request that the Green Mountain Care Board re-evaluate all of Vermont's Critical Access Hospitals and report back in the near-term about their financial health.”

This report contains an initial re-assessment of financial health based on information reported under oath¹ by each Critical Access Hospital (CAH) in Vermont as required by 18 V.S.A. § 9456 (see Appendix 1 for statutory language). The report also contains a description of the Board’s future approach to assessing financial health for all Vermont hospitals, regardless of designation. The Board intends to augment this report with a more detailed follow-up report in April 2019, after the future approach is implemented.

Assessment of CAH Financial Health

The Board’s legislative charge is to improve the health of the population and reduce the per capita rate of growth in expenditures for health services while ensuring that access to care and quality of care are not compromised. The Board formally and explicitly approves Net Patient Revenue (NPR) and growth in overall charges, and although considered in the review process, the Board does not approve expenses and other budget line items. However, it has the authority to modify budgets and commercial charges in an expedited fashion at the request of a hospital in financial difficulty. Vermont has eight CAHs, all of which were required to participate in hospital budget hearings in 2017 and 2018 as part of the hospital budget review process. Appendix 2 shows NPR and operating margin by hospital, as well as the percentage of systemwide NPR represented by each hospital. In March 2018, hospitals with actual Fiscal Year (FY) 2017 NPR at least 2.0% below the NPR in their approved budgets for FY 2017 were requested to come before the Board for an additional financial review in order to explain the reasons for the revenue decline and justify using their FY 2018 approved budget as a base for their FY 2019 budget requests.

Based on this request, Copley Hospital, Gifford Medical Center, Grace Cottage Hospital, North Country Hospital, and Springfield Hospital—all of which are CAHs—appeared before the Board at a special meeting. The Board considered the meeting necessary because, in the 2017 hearings to review hospitals’ FY 2018 budgets, the Board expressed concern that some hospitals appeared to have historically requested unrealistic revenue projections contributing to consistent losses or very low margins over the past few years, had expenses that were outpacing their

¹ There are currently two mechanisms by which hospitals provide information about their financial health to the Board. The first is during their reporting of year-to-date actual results (including periodic year-to-date actuals reporting and more detailed year-end actuals reporting), and the second is during their annual budget submission in July. Each hospital must submit the information under oath, which is notarized, and includes a requirement that “In the event that the information contained...becomes untrue, inaccurate or incomplete in any material respect, I acknowledge my obligation to notify GMCB and to supplement...as soon as I know, or reasonably should know, that the information or document has become untrue, inaccurate or incomplete in any material respect.”

revenues, or had other concerning financial issues. In the 2018 hearings to review hospitals' FY 2019 budgets, the Board continued to express concern about Springfield Hospital specifically, as well as the other hospitals listed above and Brattleboro Memorial Hospital, based in part on hospital results on some of the metrics outlined below. It is important to note that concern about financial *health* does not necessarily mean a hospital is in financial *distress* or potentially insolvent. The Board is working to balance financial health of hospitals with containing the cost of health care.

The following tables provide Vermont CAH results, rankings, and CAH benchmarks for several high-level metrics that the Board is currently using to assess the financial health of hospitals. The following caveats apply to this information:

- A favorable or unfavorable ranking relative to other Vermont CAHs or all Vermont hospitals does not mean that the hospital is performing well or poorly. For example, virtually all Vermont CAHs are performing better than the 2016 U.S. Flex Program rate for CAHs and the Optum rate for Northeast CAHs, regardless of their ranking.
- It is important to consider specific hospital circumstances and performance on multiple metrics when evaluating financial health. As an example, a hospital with a high average Age of Plant might require more Days Cash on Hand in order to finance needed capital improvements.
- In order for these or any other metrics to be useful, hospitals must be accurate and transparent in the data provided and must fulfill the requirement to notify the Board should any of the reported information become inaccurate.
- It takes time to collect data, so there is a lag between the end of the fiscal year and reporting of data. In these tables, actual results are reported for FY 2017 (October 1, 2016 – September 30, 2017). Results are projected for FY 2018.

Critical Access Hospital Results for Selected Financial Health Indicators

Key:

- **Result:** The hospital's performance on the indicator, expressed as a ratio, percentage, or number of days
- **CAH:** Hospital ranking among Vermont's eight CAHs (ranking of 1 is most favorable)
- **State:** Hospital's ranking among Vermont's 14 community hospitals (ranking of 1 is most favorable)
- **U.S. Flex:** Flex Monitoring Team 2016 median indicator values for U.S. CAHs, derived from the Medicare Cost Report
- **Optum:** Northeast CAH median, derived from the 2018 Almanac of Hospital Financial and Operating Indicators for FY 2016

Capital Structure

Age of Plant

Measures the average age in years of the fixed assets of an organization

U.S. Flex: 10.48, Optum: 14.43

Decreasing values are favorable

Critical Access Hospital

Copley Hospital
 Gifford Medical Center
 Grace Cottage Hospital
 Mt. Ascutney Hospital & Health Center
 North Country Hospital
 Northeastern VT Regional Hospital
 Porter Medical Center
 Springfield Hospital

Actual FY 2017			Projected FY 2018		
	Ranking			Ranking	
Result	CAH	State	Result	CAH	State
11.5	2	5	10.3	1	3
14.1	6	11	16.3	6	11
22.0	8	14	23.5	8	14
11.8	3	6	13.8	5	9
10.9	1	3	12.7	3	6
13.0	5	9	12.2	2	5
12.3	4	7	12.7	4	7
15.6	7	12	22.0	7	13

Long Term Debt to Capitalization

Measures the % of total capital to debt

U.S. Flex: 10.48, Optum: 23%

Decreasing values are favorable

Critical Access Hospital

Copley Hospital
 Gifford Medical Center
 Grace Cottage Hospital
 Mt. Ascutney Hospital & Health Center
 North Country Hospital
 Northeastern VT Regional Hospital
 Porter Medical Center
 Springfield Hospital

Actual FY 2017			Projected FY 2018		
	Ranking			Ranking	
Result	CAH	State	Result	CAH	State
23%	3	7	23%	3	8
24%	4	8	24%	6	11
21%	1	5	14%	1	3
31%	7	12	28%	7	12
28%	6	11	24%	5	10
23%	2	6	30%	8	13
25%	5	10	22%	2	7
36%	8	14	24%	4	9

Debt Service Coverage Ratio

Measures ability to pay obligations related to long-term debt

U.S. Flex: 3.35, Optum: 1.39

Increasing values are favorable

Critical Access Hospital

Copley Hospital
 Gifford Medical Center
 Grace Cottage Hospital
 Mt. Ascutney Hospital & Health Center
 North Country Hospital
 Northeastern VT Regional Hospital
 Porter Medical Center
 Springfield Hospital

Actual FY 2017			Projected FY 2018		
	Ranking			Ranking	
Result	CAH	State	Result	CAH	State
7.3	2	3	1.4	5	11
2.2	5	10	-1.9	8	14
-1.1	7	13	0.3	7	13
9.1	1	2	10.8	1	2
2.0	6	11	3.2	4	9
4.6	4	6	5.1	3	4
4.8	3	5	7.8	2	3
-1.4	8	14	1.2	6	12

Profitability

Operating Margin

Measures operating expenses relative to operating revenue, in %

U.S. Flex: 0.93%, Optum: -2.07%

Increasing values are favorable

Critical Access Hospital

Copley Hospital
 Gifford Medical Center
 Grace Cottage Hospital
 Mt. Ascutney Hospital & Health Center
 North Country Hospital
 Northeastern VT Regional Hospital
 Porter Medical Center
 Springfield Hospital

Actual FY 2017			Projected FY 2018		
	Ranking			Ranking	
Result	CAH	State	Result	CAH	State
-0.6%	4	7	-3.3%	7	13
-1.6%	5	10	-12.1%	8	14
-6.9%	7	13	-0.3%	5	10
2.7%	2	4	2.0%	2	4
-2.3%	6	11	1.1%	4	7
1.9%	3	5	1.8%	3	5
2.7%	1	3	6.2%	1	1
-7.1%	8	14	-1.6%	6	11

Total Margin

Measures expenses relative to revenues, in %

U.S. Flex: 2.74%, Optum: -0%

Increasing values are favorable

Critical Access Hospital

Copley Hospital
 Gifford Medical Center
 Grace Cottage Hospital
 Mt. Ascutney Hospital & Health Center
 North Country Hospital
 Northeastern VT Regional Hospital
 Porter Medical Center
 Springfield Hospital

Actual FY 2017			Projected FY 2018		
	Ranking			Ranking	
Result	CAH	State	Result	CAH	State
3.9%	3	8	-2.7%	7	13
0.3%	7	13	-7.3%	8	14
1.3%	5	10	4.8%	2	3
10.5%	1	1	4.4%	3	4
2.3%	4	9	3.1%	4	7
0.6%	6	12	1.8%	5	10
7.1%	2	3	6.8%	1	1
-3.2%	8	14	-0.4%	6	11

Return On Assets

Measures the net income generated by equity investment (net investments), in %

U.S. Flex: 5.32%, Optum: -0%

Increasing values are favorable

Critical Access Hospital

Copley Hospital
 Gifford Medical Center
 Grace Cottage Hospital
 Mt. Ascutney Hospital & Health Center
 North Country Hospital
 Northeastern VT Regional Hospital
 Porter Medical Center
 Springfield Hospital

Actual FY 2017			Projected FY 2018		
	Ranking			Ranking	
Result	CAH	State	Result	CAH	State
4.8%	3	7	-3.4%	7	13
0.2%	7	13	-4.6%	8	14
2.2%	5	10	8.1%	2	2
11.6%	1	1	4.4%	3	5
2.4%	4	9	2.9%	4	8
0.8%	6	12	2.1%	5	9
9.5%	2	2	8.6%	1	1
-4.3%	8	14	-0.5%	6	11

Liquidity

Current Ratio

Measures the number of times short-term obligations can be paid using short-term assets

U.S. Flex: 2.48, Optum: 1.37

Increasing values are favorable

Critical Access Hospital

Copley Hospital
 Gifford Medical Center
 Grace Cottage Hospital
 Mt. Ascutney Hospital & Health Center
 North Country Hospital
 Northeastern VT Regional Hospital
 Porter Medical Center
 Springfield Hospital

Actual FY 2017			Projected FY 2018		
	Ranking			Ranking	
Result	CAH	State	Result	CAH	State
3.1	3	7	2.6	6	11
4.6	1	3	4.7	1	3
0.9	8	14	0.9	8	14
3.0	4	8	3.0	4	9
4.3	2	5	4.3	2	5
2.7	6	10	4.0	3	6
2.8	5	9	2.8	5	10
1.8	7	12	2.3	7	12

Days Payable

Measures the average time that elapses before current liabilities are paid, in days

U.S. Flex: N/A, Optum: 66.0

Decreasing values are favorable

Critical Access Hospital

Copley Hospital
 Gifford Medical Center
 Grace Cottage Hospital
 Mt. Ascutney Hospital & Health Center
 North Country Hospital
 Northeastern VT Regional Hospital
 Porter Medical Center
 Springfield Hospital

Actual FY 2017			Projected FY 2018		
	Ranking			Ranking	
Result	CAH	State	Result	CAH	State
45.6	1	2	45.6	1	3
53.6	2	4	46.2	2	4
90.0	7	13	84.3	8	14
58.5	5	8	55.8	4	7
58.0	3	6	64.3	6	12
64.8	6	10	47.5	3	5
58.5	4	7	62.9	5	10
100.0	8	14	75.2	7	13

Days in Net Receivables

Measures the number of days that it takes an organization to collect its receivables

U.S. Flex: 51.34, Optum: 46.3

Decreasing values are favorable

Critical Access Hospital

Copley Hospital
 Gifford Medical Center
 Grace Cottage Hospital
 Mt. Ascutney Hospital & Health Center
 North Country Hospital
 Northeastern VT Regional Hospital
 Porter Medical Center
 Springfield Hospital

Actual FY 2017			Projected FY 2018		
	Ranking			Ranking	
Result	CAH	State	Result	CAH	State
28.0	1	1	29.0	1	2
46.8	6	11	38.3	2	5
42.2	4	7	41.5	5	9
42.7	5	8	39.8	3	7
33.4	2	2	40.8	4	8
37.7	3	5	42.0	6	10
50.1	7	13	57.3	7	13
69.0	8	14	60.1	8	14

Liquidity (continued)

Days Cash on Hand

Measures the number of days an organization could operate if no cash was collected or received

U.S. Flex: 77.72, Optum: 93

Increasing values are favorable

Critical Access Hospital

Copley Hospital
 Gifford Medical Center
 Grace Cottage Hospital
 Mt. Ascutney Hospital & Health Center
 North Country Hospital
 Northeastern VT Regional Hospital
 Porter Medical Center
 Springfield Hospital

Actual FY 2017			Projected FY 2018		
	Ranking			Ranking	
Result	CAH	State	Result	CAH	State
84.4	8	13	62.2	8	13
209.0	1	4	197.6	2	5
85.8	7	12	92.9	7	12
176.9	3	7	190.0	3	6
185.5	2	6	201.2	1	4
124.0	4	8	127.6	5	9
119.5	5	9	130.0	4	8
101.2	6	11	106.0	6	11

Cash Flow Margin

Measures the ability to generate cash flow from providing patient care services, in %

U.S. Flex: 6.99, Optum: N/A

Increasing values are favorable

Critical Access Hospital

Copley Hospital
 Gifford Medical Center
 Grace Cottage Hospital
 Mt. Ascutney Hospital & Health Center
 North Country Hospital
 Northeastern VT Regional Hospital
 Porter Medical Center
 Springfield Hospital

Actual FY 2017			Projected FY 2018		
	Ranking			Ranking	
Result	CAH	State	Result	CAH	State
3.1%	6	11	1.3%	7	13
5.4%	4	7	-5.2%	8	14
-2.9%	7	13	3.4%	5	11
7.2%	1	4	6.4%	3	5
4.2%	5	8	6.9%	2	4
6.0%	3	6	6.3%	4	7
6.7%	2	5	9.9%	1	1
-3.1%	8	14	2.1%	6	12

The following table summarizes each hospital's ranking on all eleven indicators:

Ranking	Capital Structure			Profitability			Liquidity				
	Age of Plant	Long Term Debt to Capitalization %	Debt Service Coverage Ratio	Operating Margin %	Total Margin %	Return On Assets %	Current Ratio	Days Payable	Days in Net Receivables	Days Cash on Hand	Cash Flow Margin
Critical Access Hospital	Actual FY 2017										
Copley Hospital	2	3	2	4	3	3	3	1	1	8	6
Gifford Medical Center	6	4	5	5	7	7	1	2	6	1	4
Grace Cottage Hospital	8	1	7	7	5	5	8	7	4	7	7
Mt. Ascutney Hospital & Health Center	3	7	1	2	1	1	4	5	5	3	1
North Country Hospital	1	6	6	6	4	4	2	3	2	2	5
Northeastern VT Regional Hospital	5	2	4	3	6	6	6	6	3	4	3
Porter Medical Center	4	5	3	1	2	2	5	4	7	5	2
Springfield Hospital	7	8	8	8	8	8	7	8	8	6	8
Critical Access Hospital	Projected FY 2018										
Copley Hospital	1	3	5	7	7	7	6	1	1	8	7
Gifford Medical Center	6	6	8	8	8	8	1	2	2	2	8
Grace Cottage Hospital	8	1	7	5	2	2	8	8	5	7	5
Mt. Ascutney Hospital & Health Center	5	7	1	2	3	3	4	4	3	3	3
North Country Hospital	3	5	4	4	4	4	2	6	4	1	2
Northeastern VT Regional Hospital	2	8	3	3	5	5	3	3	6	5	4
Porter Medical Center	4	2	2	1	1	1	5	5	7	4	1
Springfield Hospital	7	4	6	6	6	6	7	7	8	6	6

In addition to the metrics in these tables, the Board reviews many other financial data points, such as utilization information, charge projections, and staffing information. More detailed information can be found in the CAH-specific dashboards in Appendix 3. For the complete financial information for all hospitals, see the GMCB budget materials posted here: <https://gmcboard.vermont.gov/content/fy19-individual-hospital-budget-information>.²

Lastly, the Medicare Rural Hospital Flexibility Grant Program (“Flex Program”) recommends 22 metrics (some of which overlap with the metrics in the above tables) as indicators of CAH financial health that are routinely reported by CAHs receiving Flex Program grant funding (see Appendix 4 for descriptions of the metrics). The following Table shows median results for these metrics for all Vermont CAHs compared to CAHs in the United States:

2016 Median Indicator Values for Vermont and the United States

Indicator	VT	US
Total Margin	2.25	2.74
Cash Flow Margin	5.77	6.99
Return on Equity	6.50	5.32
Operating Margin	0.61	0.93
Current Ratio	1.66	2.48
Days Cash on Hand	134.67	77.72
Days in Net Accounts Receivable	43.11	51.34
Days in Gross Accounts Receivable	34.98	49.12
Equity Financing	58.84	59.78
Debt Service Coverage	7.05	3.35
Long-Term Debt to Capitalization	31.83	27.20
Outpatient Revenues to Total Revenues	71.39	77.74
Patient Deductions	49.45	43.46
Medicare Inpatient Payer Mix	71.72	72.70
Medicare Outpatient Payer Mix	36.77	37.10
Medicare Outpatient Cost to Charge	0.37	0.45
Medicare Revenue per Day	2531	2592
Salaries to Net Patient Revenue	46.57	44.90
Average Age of Plant	12.54	10.48
FTEs per Adjusted Occupied Bed	5.79	5.61
Average Salary per FTE	75129	56197
Average Daily Census Swing-SNF Beds	1.76	1.53
Average Daily Census Acute Beds	12.16	2.70
Number of Included CAHs	8	1317

Source: Flex Monitoring Team Data Summary Report No.26: “CAH Financial Indicators Report: Summary of Indicator Medians by State” (March 2018).

<http://www.flexmonitoring.org/publications/dsr26/>

² The Projected FY 2018 data was provided by hospitals in July. It should be noted that the data provided by Springfield Hospital does not appear to be reflective of the hospital’s current state.

Future Approach for Evaluating Critical Access Hospital Financial Health

Rural hospital financial stress is a national issue that is reported to be increasing in intensity. The Government Accounting Office (GAO) published a report in September 2018 entitled “Rural Hospital Closures: Number and Characteristics of Affected Hospitals and Contributing Factors.”³ The report found:

“GAO’s analysis of data from HHS and an HHS-funded research center shows that 64 rural hospitals closed from 2013 through 2017. This represents approximately 3 percent of all the rural hospitals in 2013 and more than twice the number of closures of the prior 5-year period. GAO’s analysis further shows that rural hospital closures disproportionately occurred in the South, among for-profit hospitals, and among hospitals that received the Medicare Dependent Hospital payment designation, one of the special Medicare payment designations for rural hospitals.”⁴

The challenging national landscape for rural hospitals underscores the need for the State to provide enhanced focus on financial health of its Critical Access Hospitals in particular, and all Vermont hospitals more generally. The Board is therefore reassessing its metrics and data collection for hospitals to determine if there are additional metrics that might assist the State in monitoring financial health, as well as ensuring that health care costs are contained. Again, it is vital that hospitals provide accurate information to the Board and are transparent with regards to financial issues they are facing. The GAO report indicates:

“According to literature GAO reviewed and stakeholders GAO interviewed, rural hospital closures were generally preceded and caused by financial distress. In particular, rural hospitals that closed typically had negative margins that made it difficult to cover their fixed costs. According to these sources, financial distress has been exacerbated in recent years by multiple factors, including the decrease in patients seeking inpatient care and across-the-board Medicare payment reductions. In contrast, according to the literature GAO reviewed and stakeholders GAO interviewed, rural hospitals located in states that increased Medicaid eligibility and enrollment experienced fewer closures...Research has shown that hospital closures can affect rural residents’ access to health care services and that certain rural residents—particularly those who are elderly and low income—may be especially affected by rural hospital closures.”

³ The report can be found at: <https://www.gao.gov/assets/700/694125.pdf>

⁴ The GAO report indicates that the percentage of rural hospitals located in the Northeastern U.S. that closed from 2013 to 2014 was proportionate to the overall percentage of rural hospitals in that region. The four rural hospital closures in the region were all in Northern New England; three in Maine and one in Massachusetts. Vermont has one Medicare Dependent Hospital – Brattleboro Memorial Hospital.

The following outlines the Board's plan for reassessing hospital budget metrics:

1. Continued identification of key financial health metrics, including metrics specific to CAHs. The Board's financial health dashboard includes the following profitability, liquidity, and capital structure metrics, many of which are used by rating agencies in evaluating hospital financial health:

Profitability:

- Operating margin (in dollars and percent)
- Total margin (in dollars and percent)
- EBIDA margin (earnings before interest, depreciation and amortization; in percent)
- Return on assets (in percent)
- Five-year compounded annual growth rates in revenues and expenses (in percent)

Liquidity:

- Cash and investments (in dollars)
- Days cash on hand (in days)
- Net days in accounts receivable (in days)
- Net days in accounts payable (in days)

Capital Structure:

- Debt service coverage ratio
- Long-term debt/capitalization (in percent)
- Cash to long-term debt (in percent)
- Average age of plant (in years)
- Capital spending (in percent)

These metrics are important indicators of financial health across all hospital types. The Board has asked CAHs to provide results for Flex Program metrics shown on Page 7 that are not included in the above list. Payer mix is also an important consideration in financial health; the Board will work to identify useful payer mix metrics. *Estimated date for reporting additional Flex Program metrics by hospital: February 1, 2019.*

2. Enhancement of Annual Financial Health Dashboard. The Board has previously reported an annual dashboard by hospital. The dashboards found in Appendix 3 include FY 2014-2017 actual results for selected financial health metrics, as well as FY 2018 projections and FY 2019 approved budget projections. Actual FY 2018 results will be submitted by hospitals at the end of January, analyzed by the Board's staff, and subsequently incorporated into the dashboards for all hospitals. Dashboards for each CAH (and for other hospitals) will also include available results for the Flex Program metrics referenced above. *Estimated date for adding Actual FY 2018 and Flex Program results to annual dashboard: February 15, 2019.*

In addition, the Board is considering requesting supplemental annual information, such as:

- Information about the hospital's financial controls, including oversight by the hospital's Board of Directors,
- Parent organization reporting (with hospital reporting broken out),
- Information on financial transfers between the parent organization and the hospital,
- Information on affiliated entities (e.g., when a hospital is owned by a Federally-Qualified Health Center (FQHC), information on the financial health of the primary care portion of the business),⁵
- Whether filings are current (e.g., payroll taxes, unemployment insurance), and
- The hospital's credit rating.

Hospitals may have concerns about publicly reporting sensitive financial information. The Board's hospital budget discussions are in public; an ability to meet in executive session to discuss certain financial matters could encourage early and complete disclosure by the hospitals.

3. Development of Periodic Financial Health Dashboard. Hospitals report year-to-date actual results (current reporting frequency is monthly). Going forward, the Board will require hospitals to provide more detail in this periodic reporting, such as balance sheet information and Days Cash on Hand reports, to support more frequent reporting of financial health results. In addition, the Board is requiring hospitals to provide it with immediate notice if:

- The hospital is in violation of any loan, bond, or note covenant,
- Any changes have been made in management or executive staff,
- There has been a significant negative change in the timing or amounts of revenue received from payers,
- There has been a significant negative change in the hospital's timeliness in paying employees or vendors, and/or
- The hospital reasonably expects that its financial stability has or will be negatively impacted in a manner that places the hospital's operations and/or financial sustainability in jeopardy.

The more detailed information will be used to develop an enhanced periodic financial health dashboard that will include actual year-to-date results for financial health metrics, similar to the metrics in the annual dashboard. *Estimated date for reporting initial periodic financial health dashboard: February 28, 2019.*

4. Identification of national and/or regional benchmarks. The Board will consult experts and the literature to identify additional national and regional benchmarks for as many of the financial health indicators as possible, preferably by hospital type with a focus on CAHs in particular and rural hospitals more generally. Whenever possible, acceptable

⁵ Two hospitals in Vermont are owned by an FQHC: Springfield Hospital and Gifford Medical Center. There is one other FQHC-owned CAH in the U.S., in West Virginia.

performance ranges will be identified for each of the metrics, to serve as evaluation criteria. *Estimated date for initial benchmark report: April 15, 2019.*

5. Identification of metrics that trigger corrective action. The Board will consult experts and the literature to identify a set of metrics (potentially a subset of the full list of financial health metrics and/or a composite measure) for which hospital results below acceptable performance ranges would trigger additional reporting and financial monitoring requirements. The Board does not have the capacity to provide auditing or financial controls for the State's hospitals, but its identification and assessment of key metrics against acceptable performance ranges could serve as a warning regarding hospital financial health, if a hospital and/or its auditor have not already identified, reported, and acted upon negative financial results. The Board would require hospitals with results below acceptable performance ranges to submit a corrective action plan against which the hospital could be monitored. *Estimated date for developing corrective action process: April 15, 2019.*

As an example of the types of information included in corrective action monitoring, the Board will require the following supplemental information submissions from Springfield Hospital for the foreseeable future:

- Fiscal Year 2018 unaudited financial statements, and audited financial statements as they become available,
- Weekly cash flow statements (for the previous week),
- Bi-monthly accounts payable aging report, including vendor detail (if vendor detail can remain confidential),
- Monthly accounts receivable aging report with payers listed (not individuals), and
- Monthly financial statements.

Notably, the Board does not have statutory authority to order a hospital into receivership or to otherwise change hospital management or operations. The Board can approve changes in budget growth, allow a hospital to increase commercial charges, and monitor a hospital, which may not be adequate to ensure financial solvency.

Conclusions and Next Steps

The GMCB is committed to working diligently and collaboratively with the Governor's Office, the Agency of Human Services, and Vermont's health care providers and citizens to find solutions to hospital financial challenges that are in the best interests of Vermonters who rely on the State's hospitals for their and their families' care. The GMCB, as always, will conduct its work in a transparent manner. It will issue progress reports as milestones related to the evaluation of CAH financial health are achieved, continue to regularly evaluate the financial health of all hospitals, and determine if enhanced monitoring is necessary moving forward. Lastly, the GMCB welcomes feedback to the evaluation approach and reporting enhancements outlined in this report.

APPENDIX 1

Hospital Budget Review Statutory Language

APPENDIX 1
Hospital Budget Review Statutory Language

18 V.S.A. § 9456

(a) The Board shall conduct reviews of each hospital's proposed budget based on the information provided pursuant to this subchapter and in accordance with a schedule established by the Board.

(b) In conjunction with budget reviews, the Board shall:

(1) review utilization information;

(2) consider the Health Resource Allocation Plan identifying Vermont's critical health needs, goods, services, and resources developed pursuant to section 9405 of this title;

(3) consider the expenditure analysis for the previous year and the proposed expenditure analysis for the year under review;

(4) consider any reports from professional review organizations;

(5) solicit public comment on all aspects of hospital costs and use and on the budgets proposed by individual hospitals;

(6) meet with hospitals to review and discuss hospital budgets for the forthcoming fiscal year;

(7) give public notice of the meetings with hospitals, and invite the public to attend and to comment on the proposed budgets;

(8) consider the extent to which costs incurred by the hospital in connection with services provided to Medicaid beneficiaries are being charged to non-Medicaid health benefit plans and other non-Medicaid payers;

(9) require each hospital to file an analysis that reflects a reduction in net revenue needs from non-Medicaid payers equal to any anticipated increase in Medicaid, Medicare, or another public health care program reimbursements, and to any reduction in bad debt or charity care due to an increase in the number of insured individuals;

(10) require each hospital to provide information on administrative costs, as defined by the Board, including specific information on the amounts spent on marketing and advertising costs; and

(11) require each hospital to create or maintain connectivity to the State's Health Information Exchange Network in accordance with the criteria established by the Vermont Information Technology Leaders, Inc., pursuant to subsection 9352(i) of this title, provided that the Board shall not require a hospital to create a level of connectivity that the State's Exchange is unable to support.

(c) Individual hospital budgets established under this section shall:

(1) be consistent with the Health Resource Allocation Plan;

(2) take into consideration national, regional, or in-state peer group norms, according to indicators, ratios, and statistics established by the Board;

(3) promote efficient and economic operation of the hospital;

(4) reflect budget performances for prior years;

(5) include a finding that the analysis provided in subdivision (b)(9) of this section is a reasonable methodology for reflecting a reduction in net revenues for non-Medicaid payers; and

(6) demonstrate that they support equal access to appropriate mental health care that meets the Institute of Medicine's triple aims of quality, access, and affordability equivalent to other components of health care as part of an integrated, holistic system of care.

(d)(1) Annually, the Board shall establish a budget for each hospital on or before September 15, followed by a written decision by October 1. Each hospital shall operate within the budget established under this section.

(2)(A) It is the General Assembly's intent that hospital cost containment conduct is afforded state action immunity under applicable federal and State antitrust laws, if:

(i) the Board requires or authorizes the conduct in any hospital budget established by the Board under this section;

(ii) the conduct is in accordance with standards and procedures prescribed by the Board; and

(iii) the conduct is actively supervised by the Board.

(B) A hospital's violation of the Board's standards and procedures shall be subject to enforcement pursuant to subsection (h) of this section.

(3)(A) The Office of the Health Care Advocate shall have the right to receive copies of all materials related to the hospital budget review and may:

(i) ask questions of employees of the Green Mountain Care Board related to the Board's hospital budget review;

(ii) submit written questions to the Board that the Board will ask of hospitals in advance of any hearing held in conjunction with the Board's hospital review:

(iii) submit written comments for the Board's consideration; and

(iv) ask questions and provide testimony in any hearing held in conjunction with the Board's hospital budget review.

(B) The Office of the Health Care Advocate shall not further disclose any confidential or proprietary information provided to the Office pursuant to this subdivision (3).

(e) The Board may establish a process to define, on an annual basis, criteria for hospitals to meet, such as utilization and inflation benchmarks. The Board may waive one or more of the review processes listed in subsection (b) of this section.

(f) The Board may, upon application, adjust a budget established under this section upon a showing of need based upon exceptional or unforeseen circumstances in accordance with the criteria and processes established under section 9405 of this title.

(g) The Board may request, and a hospital shall provide, information determined by the Board to be necessary to determine whether the hospital is operating within a budget established under this section. For purposes of this subsection, subsection (h) of this section, and subdivision 9454(a)(7) of this title, the Board's authority shall extend to an affiliated corporation or other person in the control of or controlled by the hospital to the extent that such authority is necessary to carry out the purposes of this subsection, subsection (h) of this section, or subdivision 9454(a)(7) of this title. As used in this subsection, a rebuttable presumption of "control" is created if the entity, hospital, or other person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 20 percent or more of the voting securities or membership interest or other governing interest of the hospital or other controlled entity.

(h)(1) If a hospital violates a provision of this section, the Board may maintain an action in the Superior Court of the county in which the hospital is located to enjoin, restrain, or prevent such violation.

(2)(A) After notice and an opportunity for hearing, the Board may impose on a person who knowingly violates a provision of this subchapter, or a rule adopted pursuant to this subchapter, a civil administrative penalty of no more than \$40,000.00, or in the case of a continuing violation, a civil administrative penalty of no more than \$100,000.00 or one-tenth of one percent of the gross annual revenues of the hospital, whichever is greater. This subdivision shall not apply to violations of subsection (d) of this section caused by exceptional or unforeseen circumstances.

(B)(i) The Board may order a hospital to:

(I)(aa) cease material violations of this subchapter or of a regulation or order issued pursuant to this subchapter; or

(bb) cease operating contrary to the budget established for the hospital under this section, provided such a deviation from the budget is material; and

(II) take such corrective measures as are necessary to remediate the violation or deviation and to carry out the purposes of this subchapter.

(ii) Orders issued under this subdivision (2)(B) shall be issued after notice and an opportunity to be heard, except where the Board finds that a hospital's financial or other emergency circumstances pose an immediate threat of harm to the public or to the financial condition of the hospital. Where there is an immediate threat, the Board may issue orders under this subdivision (2)(B) without written or oral notice to the hospital. Where an order is issued without notice, the hospital shall be notified of the right to a hearing at the time the order is issued. The hearing shall be held within 30 days of receipt of the hospital's request for a hearing, and a decision shall be issued within 30 days after conclusion of the hearing. The Board may increase the time to hold the hearing or to render the decision for good cause shown. Hospitals may appeal any decision in this subsection to Superior Court. Appeal shall be on the record as developed by the Board in the administrative proceeding and the standard of review shall be as provided in 8 V.S.A. § 16.

(3)(A) The Board shall require the officers and directors of a hospital to file under oath, on a form and in a manner prescribed by the Board, any information designated by the Board and required pursuant to this subchapter. The authority granted to the Board under this subsection is in addition to any other authority granted to the Board under law.

(B) A person who knowingly makes a false statement under oath or who knowingly submits false information under oath to the Board or to a hearing officer appointed by the Board or who knowingly testifies falsely in any proceeding before the Board or a hearing officer appointed by the Board shall be guilty of perjury and punished as provided in 13 V.S.A. § 2901. (Added 1983, No. 93, § 1, eff. May 4, 1983; amended 1987, No. 96, § 19; 1991, No. 160 (Adj. Sess.), § 13, eff. May 11, 1992; 1995, No. 180 (Adj. Sess.), § 35; 1999, No. 81 (Adj. Sess.), § 1, eff. Oct. 1, 2000; 2001, No. 63, § 123b; 2003, No. 53, § 24; 2005, No. 71, § 77f; 2005, No. 191 (Adj. Sess.), § 25; 2007, No. 27, § 9; 2009, No. 128 (Adj. Sess.), §§ 16, 22-24, eff. May 27, 2010; 2011, No. 21, § 17, eff. May 11, 2011; 2011, No. 48, § 25a; 2011, No. 171 (Adj. Sess.), § 23, eff. May 16, 2012; 2013, No. 79, § 34, eff. June 7, 2013; 2015, No. 54, § 42; 2015, No. 152 (Adj. Sess.), § 2a; 2017, No. 167 (Adj. Sess.), § 5, eff. May 22, 2018; 2017, No. 200 (Adj. Sess.), § 19.)

APPENDIX 2

Net Patient Revenue and Operating Margin, by Hospital and Hospital Type

APPENDIX 2
Net Patient Revenue and Operating Margin, by Hospital and Hospital Type

	Actual 2017			Projection FY 2018		
	Net Patient Revenue (NPR)		Operating Margin	Net Patient Revenue (NPR)		Operating Margin
	Result	% of System	Result	Result		Result
Critical Access Hospital						
Copley Hospital	\$64,983,966	3%	-\$377,946	\$66,445,249	3%	-\$2,206,698
Gifford Medical Center	\$54,307,372	2%	-\$874,293	\$50,898,710	2%	-\$6,294,200
Grace Cottage Hospital	\$17,261,208	1%	-\$1,270,782	\$18,263,697	1%	-\$57,521
Mt. Ascutney Hospital & Health Center	\$48,253,025	2%	\$1,390,379	\$50,234,244	2%	\$1,063,735
North Country Hospital	\$76,686,887	3%	-\$1,871,960	\$77,301,900	3%	\$950,956
Northeastern VT Regional Hospital	\$76,794,700	3%	\$1,477,373	\$77,826,800	3%	\$1,455,500
Porter Medical Center	\$78,203,218	3%	\$2,196,330	\$82,231,330	3%	\$5,400,445
Springfield Hospital	\$51,999,349	2%	-\$3,835,857	\$57,136,272	2%	-\$921,697
Total Critical Access Hospital	\$468,489,725	19%	-\$3,166,756	\$480,338,202	19%	-\$609,480
Non-Critical Access Hospital						
Brattleboro Memorial Hospital	\$75,062,532	3%	-\$2,437,207	\$78,640,504	3%	-\$1,918,391
Central Vermont Hospital	\$195,237,530	8%	-\$1,902,075	\$203,951,635	8%	\$2,798,253
Northwestern Medical Center	\$101,110,424	4%	-\$1,259,824	\$106,101,522	4%	\$485,365
Rutland Regional Medical Center	\$242,193,431	10%	\$4,163,384	\$253,620,932	10%	\$2,049,241
Southwestern Vermont Medical Center	\$152,602,902	6%	\$5,775,890	\$159,283,492	6%	\$5,733,224
The University of Vermont Medical Center	\$1,211,118,975	50%	\$68,580,794	\$1,248,164,120	49%	\$53,550,271
Total Non-Critical Access Hospital	\$1,977,325,794	81%	\$72,920,962	\$2,049,762,205	81%	\$62,697,963
Total Community Hospital System	\$2,445,815,519	100%	\$69,754,206	\$2,530,100,407	100%	\$62,088,483

APPENDIX 3

**Financial Health Dashboards for
Vermont's Critical Access Hospitals**

Note: These Dashboards are summary views of key financial metrics obtained during the GMCB's hospital budget review process. NPR does not include all of the hospital's revenues.

Annual Financial Health Analysis: FY14-17 Actuals, FY18 Projection, FY19 GMCB-Approved Budget	Mt. Ascutney Hospital & Health Ctr										Flex Monitoring Team 2016 CAH Medians				2018 Almanac of Hospital Financial and Operating Indicators (Optum) FY2016			
	FY2014A	FY2015A	FY2016A	FY2017A	FY2018B	FY2018P	FY2019B	Vermont-8 Hospitals	U.S.-1317 Hospitals	Northeast Region	Northeast CAH	25-99 beds	100-199 beds	Teaching Hospitals				
DASHBOARD																		
Net Patient Care Rev & Fixed Payments & Reserves	45,789,349	45,514,515	46,402,275	48,253,025	48,682,309	50,234,244	51,951,770											
NPR & FPP % Change		-0.6%	2.0%	4.0%	0.9%	3.2%	3.4%											
Five Year NPR & FPP CAGR* (FY15A - FY18A)						1.9%												
Operating Expense	49,184,582	49,097,805	49,577,507	50,392,970	52,939,112	52,947,925	54,837,975											
Oper Exp % Change		-0.2%	1.0%	1.6%	5.1%	3.6%												
Five Year Operating Expenses CAGR* (FY15A - FY18A)						1.5%												
Profitability																		
Operating Margin	(463,805)	(1,173,573)	141,292	1,390,379	(909,930)	1,063,735	17,584											
Five Year Operating Margin CAGR* (FY15A - FY18A)						-218.1%												
EBIDA Margin%	5.2%	4.4%	5.4%	7.2%	3.2%	6.4%	4.6%			8.1%	7.3%	7.7%	10.7%	10.7%				
Operating Margin %	-1.0%	-2.4%	0.3%	2.7%	-1.7%	2.0%	0.0%		0.61%	0.0%	-2.1%	-0.5%	2.1%	2.4%				
Total Margin	216,182	(1,476,576)	1,302,564	5,890,709	1,131,004	2,437,390	878,584											
Five Year Total Margin CAGR* (FY15A - FY18A)						62.3%												
Total Margin %	0.4%	-3.1%	2.6%	10.5%	2.1%	4.4%	1.6%		2.25%	1.6%	0.0%	1.9%	6.0%	3.7%				
Return On Assets	0.6%	-3.5%	2.8%	11.6%	2.4%	4.4%	1.6%		1.6%	1.6%	0.0%	2.0%	5.3%	3.7%				
Liquidity																		
Cash & Investments	2,812,066	3,534,580	3,644,335	6,267,363	2,122,595	7,421,507	6,380,918											
Days Cash on Hand	138	143	148	177	134	190	176		134.67	84	93	116	80	98				
Current Ratio	2.2	1.9	2.5	3.0	2.4	3.0	3.2		1.66	1.6	1.4	2.6	1.8	1.5				
Expense Per Day**	134,752	134,515	135,829	138,063	145,039	145,063	150,241											
Days Receivable**	47.9	41.4	40.1	42.7	40.6	39.8	38.5		43.11	42.1	46.3	48.6	42.8	42.3				
Days Payable**	63.9	73.9	58.1	58.5	56.0	55.8	53.5			67.3	66.0	48.8	65.2	67.7				
Capital																		
Age of Plant**	9.6	8.6	12.6	11.8	13.1	13.8	11.9		12.54	12.5	14.4	10.6	12.4	10.5				
Long Term Debt to Capitalization**	34.0%	32.2%	36.1%	31.1%	35.6%	28.2%	29.5%		31.83	28.0%	23.0%	26.6%	19.0%	32.8%				
Debt Service Coverage Ratio	3.1	2.5	5.2	9.1	4.7	10.8	6.1		7.05	3.1	1.4	3.1	6.7	6.0				
Cash to Long Term Debt	210.8%	223.8%	172.0%	202.9%	167.5%	237.5%	220.8%											
*CAGR = Compounded Annual Growth Rate																		
**Denotes metric is favorable if lower																		

Annual Financial Health Analysis: FY14-17 Actuals, FY18 Projection, FY19 GMCB-Approved Budget		Porter Medical Center							Flex Monitoring Team 2016 CAH Medians				2018 Almanac of Hospital Financial and Operating Indicators (Optum) FY2016			
DASHBOARD		FY2014A	FY2015A	FY2016A	FY2017A	FY2018B	FY2018P	FY2019B	Vermont--8 Hospitals	U.S.--1317 Hospitals	Northeast Region	Northeast CAH	25-99 beds	100-199 beds	Teaching Hospitals	
Net Patient Care Rev & Fixed Payments & Reserves		66,716,573	70,596,270	75,061,496	78,203,218	78,348,499	82,231,330	84,530,515								
NPR & FPP % Change			5.8%	6.3%	4.2%	0.2%	5.0%	2.8%								
Five Year NPR & FPP CAGR* (FY15A - FY18A)							4.3%									
Operating Expense		71,703,894	75,017,499	75,577,275	78,874,889	81,062,878	81,917,777	86,193,573								
Oper Exp % Change			4.6%	0.7%	4.4%	2.8%	1.1%	5.2%								
Five Year Operating Expenses CAGR* (FY15A - FY18A)							2.7%									
Profitability																
Five Year Operating Margin CAGR* (FY15A - FY18A)		(2,155,096)	(1,748,578)	1,450,905	2,196,330	(203,445)	5,400,445	3,291,451								
EBIDA Margin%		4.0%	2.4%	6.1%	6.7%	4.1%	9.9%	7.4%			8.1%	7.3%	7.7%	10.7%	10.7%	
Operating Margin %		-3.1%	-2.4%	1.9%	2.7%	-0.3%	6.2%	3.7%	0.61%	9.30%	0.0%	-2.1%	-0.5%	2.1%	2.4%	
Total Margin		1,786,429	1,861,533	4,721,040	6,034,568	2,731,737	5,930,714	3,690,906								
Five Year Total Margin CAGR* (FY15A - FY18A)							27.1%									
Total Margin %		2.4%	2.4%	5.9%	7.1%	3.3%	6.8%	4.1%	2.25%	2.74%	1.6%	0.0%	1.9%	6.0%	3.7%	
Return On Assets		3.2%	3.3%	8.3%	9.5%	4.4%	8.6%	5.1%			1.6%	0.0%	2.0%	5.3%	3.7%	
Liquidity																
Cash & Investments		11,294,135	11,950,916	14,497,053	18,692,243	17,711,057	21,894,304	24,475,433								
Days Cash on Hand		84	86	101	119	110	130	135	134.67	77.72	84	93	116	80	98	
Current Ratio		2.3	2.6	2.8	2.8	2.0	2.8	2.9	1.66	2.48	1.6	1.4	2.6	1.8	1.5	
Expense Per Day**		196,449	205,527	207,061	216,096	222,090	224,432	236,147								
Days Receivable**		50.7	50.2	45.5	50.1	53.9	57.3	61.8	43.11	51.34	42.1	46.3	48.6	42.8	42.3	
Days Payable**		65.9	51.8	50.3	58.5	74.7	62.9	61.2			67.3	66.0	48.8	65.2	67.7	
Capital																
Age of Plant**		6.7	10.8	11.1	12.3	12.0	12.7	13.1	12.54	10.48	12.5	14.4	10.6	12.4	10.5	
Long Term Debt to Capitalization**		35.3%	33.9%	30.5%	25.0%	27.7%	22.0%	19.9%	31.83	27.20	28.0%	23.0%	26.6%	19.0%	32.8%	
Debt Service Coverage Ratio		2.3	1.8	4.1	4.8	2.9	7.8	6.1	7.05	3.35	3.1	1.4	3.1	6.7	6.0	
Cash to Long Term Debt		113.5%	129.8%	168.1%	218.8%	215.6%	255.7%	288.6%								
*CAGR = Compounded Annual Growth Rate																
**Denotes metric is favorable if lower																

APPENDIX 4

Critical Access Hospital Financial Indicators

APPENDIX 4
Critical Access Hospital Financial Indicators

Critical Access Hospitals are licensed through the Medicare Rural Hospital Flexibility Program (Flex Program). The Flex Program publishes annually a list [22 indicator medians by state and the nation](#). These 22 indicators were specifically designed to capture the financial performance of critical access hospitals and are categorized by:

Profitability	
Total Margin	Measures expenses relative to revenues
Cash Flow Margin	Measures the ability to generate cash flow from providing patient care services
Return on Equity	Measures the net income generated by equity investment (net investments)
Operating Margin	Measures operating expenses relative to operating revenue
Liquidity	
Current Ratio	Measures the number of times short-term obligations can be paid using short-term assets
Days Cash on Hand	Measures the number of days an organization could operate if no cash was collected or received
Days in Net Accounts Receivable	Measures the number of days that it takes an organization to collect its receivables
Days in Gross Accounts Receivable	Compared to days in net, measures revenue cycle performance
Capital Structure	
Equity Financing	Measures the % of total assets financed by equity
Debt Service Coverage	Measures the ability to pay obligations related to long-term debt, principal payments and interest expense
Long-Term Debt to Capitalization	Measures the % of total capital to debt
Revenue	
Outpatient Revenues to Total Revenues	Measures the % of total revenues that are for outpatient revenues
Patient Deductions	Measure the allowances and discounts per dollar of total patient revenues
Medicare Inpatient Payer Mix	Measures the % of total inpatient days that are provided to Medicare patients
Hospital Medicare Outpatient Cost to Charge	Measures inpatient Medicare costs per dollar of outpatient Medicare charges
Medicare Acute Inpatient Cost per day	Measures the average daily cost of a Medicare acute patient
Cost	
Salaries to NPR	Measures the % of patient revenue that are labor costs
Average Age of Plant	Measures the average age in years of the fixed assets of an organization
FTEs per Adjusted Occupied Bed	Measures the number of full-time employees per each occupied bed
Average Salary per FTE	Measures the price and mix of labor
Utilization	
Average Daily Census Swing-SNF Beds	Measures the average number of swing-SNF beds occupied per day
Average Daily Census Acute Beds	Measures the average number of acute care beds occupied per day