

Green Mountain Care Board
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October 1, 2019

DELIVERED ELECTRONICALLY

Joseph Perras, MD
Chief Executive Officer and Chief Medical Officer
Mt. Ascutney Hospital & Health Center
County Road
Windsor, VT 05089

Dear Dr. Perras:

Enclosed please find a Budget Order reflecting the Green Mountain Care Board's decision establishing your hospital's budget for fiscal year 2020. The Board and its staff analyzed your proposed budget and supplemental information provided during the review process and took numerous additional considerations into account in rendering its decision. That decision is described in the enclosed Order.

The hospital budget review process is a key tool in our efforts to constrain health care cost growth while improving the health of Vermonters. As part of this process, the Board considers hospital financial health and the importance of transitioning to a value-based system. We look forward to working with you and your staff to refine and improve the process for the next cycle and beyond. We appreciate the responsiveness and diligence that you and your staff have shown during the FY20 budget cycle.

If you have any questions regarding the Order or the implementation of its reporting requirements, please feel free to contact me or the Board's hospital budget staff. Again, thank you for your hard work and cooperation during this process.

Sincerely,

s/ Kevin Mullin

Chair, Green Mountain Care Board

cc: David Sanville, CFO
Mike DelTrecco, VAHHS
Julia Shaw, HCA



STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

FY2020 HOSPITAL BUDGET DECISION AND ORDER

In re: Mt. Ascutney Hospital & Health Center)
Fiscal Year 2020)
_____) Docket No. 19-007-H

INTRODUCTION

In July, the Green Mountain Care Board (GMCB or “the Board”) began reviewing the Fiscal Year 2020 (FY20) budgets of Vermont’s 14 general hospitals for compliance with policy guidelines and financial targets adopted by the Board in March. The financial targets include net patient revenue and fixed prospective payment (NPR/FPP) growth of not more than 3.5% over the approved FY19 budgets and, for hospitals with an FY19 budget-to-projection variance of -2.0% or greater, not more than five percentage points more than that variance. *See* GMCB, FY 2020 Hospital Budget Guidance and Reporting Requirements, 9 (Mar. 31, 2019) (FY20 Guidance).¹ After considering requested provider transfers and accounting adjustments,² the hospitals’ FY20 budget submissions reflect a systemwide average NPR/FPP growth request of 4.5%³ over the approved, systemwide FY19 NPR/FPP and an overall estimated weighted average charge increase of 3.2%. Following public board meetings, presentations by hospitals and GMCB staff, and a special public comment period that closed on September 3, 2019, the Board approved a reduced systemwide NPR/FPP increase of 4.3% (a \$7.3 million reduction) and an estimated weighted average charge increase of 3.1%. GMCB, Fiscal Year 2020 Approved Vermont Hospital Budget Submissions, 3-5 (Sept. 19, 2019) (Approved Budgets). The Board felt an effective 4.3% NPR/FPP increase was warranted in light of the many challenges facing Vermont’s hospitals and the need to support Vermont’s ongoing transition to a value-based health care system focused on prevention, wellness, and health.

Mt. Ascutney Hospital & Health Center (Mt. Ascutney) requested a 7.4% increase in NPR/FPP and a 3.2% increase in charges. On September 11, following, Mt. Ascutney’s budget hearing, GMCB staff presentations, and deliberations, the Board approved Mt. Ascutney’s budget with a reduced NPR/FPP increase of 5.0% and a 3.2% change in charges.

¹ The hospitals’ FY20 budget materials, including their budget narratives and responses to questions, are available on the GMCB website at: <https://gmcboard.vermont.gov/content/2020-Budget>. Transcripts of the hospital budget hearings and deliberations are available upon request.

² In accordance with the FY20 Guidance, hospitals may request “adjustments” to their approved FY19 NPR/FPP or FY20 request, which, if approved, are not factored into their total NPR/FPP increase. These adjustments most frequently reflect provider transfers but may also appear in other accounting adjustments. *See* FY20 Guidance, 11.

³ 4.5% reflects the requested growth in NPR/FPP for the entire system, after provider transfers and other adjustments are factored in. Unless otherwise indicated, this Order will reference percent change in NPR/FPP growth inclusive of requested and/or approved accounting adjustments. During the FY20 budget review process, North Country Hospital and Central Vermont Medical Center submitted revised budgets, which affected systemwide calculations. 4.5% NPR/FPP growth incorporates and reflects those revised submissions.

LEGAL FRAMEWORK

Hospital budget review is one of the Board's core regulatory responsibilities. 18 V.S.A. §§ 9375(b)(7), 9456. The Board must establish each hospital's budget no later than September 15 of each year and is required to issue written decisions reflecting each hospital's established budget by October 1. 18 V.S.A. § 9456(d)(1). In making these decisions, the Board 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. The Board may adjust proposed budgets that fail to comply with the Board's established benchmarks. GMCB Rule 3.000, § 3.305. The Board may also adjust a hospital's established budget based on a showing of exceptional or unforeseen circumstance or based on the Board's independent review of a hospital's budget performance. 18 V.S.A. § 9456(f); GMCB Rule 3.000, § 3.401.

The Board first adopted guidelines for the hospital budget review process in 2013, and last updated them this past March. *See* FY20 Guidance, 9.⁴ For FY20, the Board set an NPR/FPP growth target of not more than 3.5% over the approved FY19 budgets. *Id.* Additionally, the Board instructed hospitals with an FY19 budget-to-projection variance of -2.0% or greater to not submit an FY20 NPR/FPP increase that exceeds the variance by more than five percentage points, unless clearly justified. *See id.*

FY20 REVIEW PROCESS

The Board and its staff have reviewed and analyzed FY20 budget information submitted by the hospitals, including detailed financial information, utilization data, population health goals, quality measure results, health service area total cost of care data, provision of mental health services, patient access data, budget-to-budget NPR/FPP growth rates, prior budget performance, and requested changes in charges. In addition, the Board considered comments from the Office of the Health Care Advocate (HCA) and from members of the public. The Board also considered each hospital's unique circumstances, including its health care reform efforts, capital and infrastructure needs, hospital-specific risks and opportunities, and applicable cost-reduction initiatives.

The hospitals requested a systemwide NPR/FPP increase of 4.5% over the systemwide FY19 budgeted NPR/FPP, after considering provider transfers and accounting adjustments. GMCB PowerPoint, Fiscal Year 2020 Vt. Hosp. Budget, Board Deliberations, 9 (Sept. 4, 2019) (Deliberations I). After considering presentations from and discussions with hospital leadership, analysis prepared by GMCB staff, and input from the HCA and the public, we establish an actual systemwide NPR/FPP growth rate for FY20 of 4.3% over the approved systemwide FY19 NPR/FPP.

⁴ The Board's FY20 Guidance is available at <https://gmcboard.vermont.gov/sites/gmcb/files/documents/FY2020%20Hospital%20Budget%20Guidance%20Final%20as%20of%202019-03-27%20updated%204%208%2019.pdf>.

In addition, the Board reviewed each hospital's proposed change in charges, which is the average amount by which a hospital requested to increase its charges.⁵ Notably, the respective payers — Medicare, Medicaid, and commercial — do 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 unique fee schedule and update factors. Taking into consideration all adjustments, we reduce the estimated system weighted overall average change in charges from the requested 3.2% to 3.1%. Approved Budgets, 5.

Finally, as we move into Year 3 of the All-Payer ACO Model Agreement (APM Agreement), the Board, through a transparent public process, will continue to refine how it conducts its hospital budget, ACO budget and certification, health insurance rate review, and certificate of need review processes to better understand and align its regulatory work. We encourage the hospitals to continue their efforts to position their institutions, individual providers, and served populations as we move away from a fragmented, fee-for-service system to an integrated delivery system and value-based provider reimbursements. We also note that the FPPs hospitals receive from OneCare as part of the APM Agreement offer a regular and reliable source of income, which can be particularly important for Vermont's smaller, rural hospitals that continue to struggle with small operating margins and changing demographics and utilization trends.

Mt. Ascutney filed its FY20 budget submission on July 2, 2019. It requested a 7.4% increase in NPR/FPP and a 3.2% change in charges. Mt. Ascutney FY20 Budget Submission, Narrative, 2 (Mt. Ascutney Submission); Deliberations I, 66. Mt. Ascutney's NPR/FPP request did not comply with the FY20 Guidance because it exceeded the Board's maximum growth target of 3.5%. *See* FY20 Guidance, 9. Mt. Ascutney's senior leadership presented the FY20 budget to the Board at a public hearing held August 28, 2019. *See* Mt. Ascutney FY20 Budget Presentation (Aug. 28, 2019) (Mt. Ascutney Presentation). On September 11, 2019, the Board approved Mt. Ascutney's budget with a reduced FY20 NPR/FPP of 5.0% and a change in charge increase of 3.2%.

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

FINDINGS

1. Mt. Ascutney is a critical access hospital with its primary location in Windsor, Vermont. Mt. Ascutney's FY20 submitted NPR/FPP accounted for approximately 2.0% of the total submitted NPR/FPP for all 14 regulated hospitals in the State. *See* GMCB PowerPoint, Fiscal Year 2020 Vt. Hosp. Budget Submissions, Preliminary Review, 13 (July 31, 2019).
2. Mt. Ascutney is a member of the Dartmouth-Hitchcock Health network (D-HH). Mt. Ascutney Presentation, 6. Affiliation status allows Mt. Ascutney to leverage financial and delivery system capabilities, including patient transfers from network hospitals. Mt. Ascutney Budget Hearing Tr., 42:03-17 (Hearing Tr.).

⁵ Changes to the actual charges vary by hospital and across service lines.

3. Mt. Ascutney submitted its FY20 budget on July 2, 2019, seeking a 7.4% growth in NPR/FPP, a total of \$55,007,317, and requested a change in charge increase of 3.2%. *See* Mt. Ascutney Submission, Narrative, 2 & Appendix VIII. Mt. Ascutney’s 7.4% requested increase in NPR/FPP exceeded the FY20 Guidance’s 3.5% growth cap. *See* FY20 Guidance, 9. Mt. Ascutney’s requested NPR/FPP increase was 6.5% above its FY19 projections. Mt. Ascutney Submission, Staff Analysis, Income Statement, 3.
4. Mt. Ascutney expects increased utilization from fully staffed primary care practices, increased acuity in the existing patient population, and growth from rehabilitation services and the Springfield and New Hampshire services areas. Hearing Tr., 48:02-49:18, 65:09-17; *see also* Response to Hospital Hearing Follow-Up Questions, 4. Mt. Ascutney representatives testified that they set the 7.4% NPR/FPP growth rate to achieve a 1.0% operating margin target. *See* Hearing Tr., 48:05-49:18; 52:13-17.
5. Mt. Ascutney’s FY20 budget includes total operating expenses of \$57,708,929, an increase of approximately 5.2% over budgeted FY19 and 3.2% over projected FY19. Mt. Ascutney Submission, Staff Analysis, Income Statement, 3.
6. Mt. Ascutney’s FY20 requested budget allocates its NPR/FPP by payers, as set forth below.

Fiscal Year 2020 Budget Analysis	FY2019	FY2020	% change FY19B-
NPR/FPP - Payers	Budget (\$)	Budget (\$)	FY20B
Commercial	20,432,471	21,523,532	5.3%
Medicaid	1,863,043	3,114,282	67.2%
Medicare	28,600,256	30,029,503	5.0%
Disproportionate Share Payments	300,000	340,000	13.3%
All Payers	51,195,770	55,007,317	7.4%

See Mt. Ascutney Hospital Hearing Follow-up Questions, 3. Mt. Ascutney FY20 NPR/FFP represents a reasonable allocation by payer as compared to Mt. Ascutney FY19 budget.⁶

7. Mt. Ascutney is a participating provider in OneCare Vermont’s Medicaid, Medicare, and Blue Cross Blue Shield of Vermont programs for the 2019 calendar year and plans to participate in those programs again for the 2020 calendar year. Mt. Ascutney, Narrative, Appendix V. The portion of income that Mt. Ascutney receives as FPPs has progressively increased during the past three years, as set forth in the table below. Deliberations I, 70.

⁶ Mt. Ascutney reports a 67.2% increase in Medicaid revenue because it is reversing an error in its FY19 budget submission. Mt. Ascutney Hospital Hearing Follow-up Questions, 3

% FPP/NPR & FPP		
FY18 Act.	FY19 Proj.	FY20 Budget
1.4%	10.0%	14.8%

8. For FY20, Mt. Ascutney has budgeted an operating margin of \$599,865, or 1.0%, and a total margin of 2.4%. Mt. Ascutney Submission, Staff Analysis, Income Statement, 3. Mt. Ascutney projects a -0.7% operating margin and 1.1% total margin in FY19. *Id.*
9. Mt. Ascutney’s budget anticipates 133.04 days cash on hand⁷ in FY20. Mt. Ascutney Submission, Staff Analysis, Balance Sheet, 7. The hospital expects to close FY19 with 126.70 days cash on hand. *Id.*
10. Mt. Ascutney’s narrative, testimony, and other filed budget information comply with the Board’s FY20 hospital budget requirements.
11. Approving Mt. Ascutney’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

Our review of FY20 budgets coincides with a period of increased financial stress within Vermont’s hospital system. In recent years, hospitals have described how a variety of factors are impacting their bottom lines, including health care workforce shortages, rising employee health care costs, shifts in health care utilization, challenges with government reimbursements, changing patient demographics, and difficulties transitioning their electronic health record systems. As each hospital is unique, each is being affected by these factors differently. However, as we have described previously, it is fair to say that, as a result of these and other factors, the smaller rural hospitals in the state are facing financial challenges. *See* GMCB, Report on Financial Health of Vermont’s Critical Access Hospitals, 9 (Jan. 2019) (CAH Report). In addition to these more traditional pressures on revenues and expenses, many hospitals are assuming financial burdens associated with a transition to a more accountable health care system — a transition we fully support. We also recognize that, on a systemwide basis, hospitals have funded approximately half of the health care reform investments that have been made under the All-Payer Model. In our review this year, we have sought to consider each hospital’s unique circumstances, which, in some cases, justify NPR/FPP increases above the targets in our FY20 Guidance. We have also required several hospitals to develop a sustainability plan. The self-reflection that this work will require may be difficult, but it is important, and we look forward to hearing from hospitals in the coming months on their progress.

In its FY20 budget, Mt. Ascutney requested an 7.4% increase in NPR/FPP over its FY19 approved budget, which is a 6.5% increase over its FY19 projections. This request does not comply with the financial caps we established in our FY20 Guidance. Findings, ¶ 3. We

⁷ The systemwide average is approximately 166 days cash on hand.

acknowledge Mt. Ascutney has experienced increased utilization that it attributes to its DH-H affiliation and patients migrating from the Springfield area. Findings, ¶¶ 2, 4. Even with these increases Mt. Ascutney did not adequately support their 7.4% requested increase. We are concerned about NPR/FPP forecasts that are not supported by utilization and result in corresponding expenses budgeted to meet their NPR/FPP forecasts. When hospitals fall short of NPR/FPP targets and are unable to adjust expenses in a timely manner, lower and, at times, negative operating margins are often the result. Mt. Ascutney representatives explained the components of the requested NPR/FPP increase, attributing a portion to increased utilization and noted that another portion was built in to meet operating margin goals, without explaining how the hospital would generate that portion of the income. *See* Findings, ¶¶ 3-4. We therefore approve a reduced NPR/FPP increase of 5.0% over the FY19 budget. We expect the hospital to make appropriate reductions in operating expenses based on this more modest, and more realistic, increase in NPR/FPP and use those expense reductions to meet or come close to its targeted operating margin.

Additionally, we approve Mt. Ascutney's request for a 3.2% increase to its overall charges in FY20. We find Mt. Ascutney's requested increase is reasonable in light of its individual circumstances. We note that 3.2% is a not-to-exceed cap on the hospital's overall charge increase and not a guaranteed reimbursement increase from any particular payer.

ORDER

Based on our findings and conclusions and the authority granted by Chapter 221, Subchapter 7 of Title 18, Mt. Ascutney's budget is approved for FY20 subject to the following terms and conditions:

- A. Mt. Ascutney's FY20 NPR/FPP budget is established at a 5.0% growth rate over its FY19 budget, or \$53,755,559.
- B. Mt. Ascutney's overall change in charges is approved at no more than 3.2% over current approved levels.
- C. Beginning on or before November 20, 2019, and every month thereafter, Mt. Ascutney shall file with the Board the actual year-to-date FY20 operating results for the prior month. The report shall be in a form and manner as prescribed by GMCB staff.
- D. Mt. Ascutney shall advise the Board of any material changes to its FY20 budgeted revenues and expenses, or to the assumptions used in determining its budget, including:
 - a. changes in Medicaid, Medicare, or commercial reimbursement;
 - b. additions or reductions in programs or services to patients; and
 - c. any other event that could materially change the approved NPR/FPP budget.
- E. On or before January 31, 2020, Mt. Ascutney shall file with the Board, in a form and manner prescribed by GMCB staff, such information as the Board determines necessary to review Ascutney's FY19 actual operating results.

- F. Mt. Ascutney shall file with the Board one copy of its FY19 audited financial statements and associated management letter(s), as well as the parent organization’s audited consolidated financial statements, if applicable, no later than 15 days after the hospital receives the document(s), or by January 31, 2020, whichever is earlier.
- G. Mt. Ascutney shall timely file all forms and information required for provider acquisitions and/or transfers as determined by GMCB staff, if applicable.
- H. After notice and an opportunity to be heard, the Board 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.
- I. All materials required above shall be provided electronically, unless doing so is not practicable.
- J. 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: October 1, 2019
 Montpelier, Vermont

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

Filed: October 1, 2019

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

NOTICE TO READERS: This document is subject to revision of technical errors. Readers are requested to notify the Board (by email, telephone, or in writing) of any apparent errors, so that any necessary corrections may be made. (Email address: Lori.Perry@vermont.gov).