

Green Mountain Care Board
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October 1, 2019

DELIVERED ELECTRONICALLY

Jill Berry Bowen, RN
Chief Executive Officer
Northwestern Medical Center
133 Fairfield Street
St. Albans, VT 05478-1013

Dear Ms. Berry Bowen:

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.

As part of the Budget Order, your hospital is required to meet with Board leadership, either telephonically or in person, on a bi-monthly basis to discuss the hospital's operating performance and related matters. Also, your hospital is required to participate in sustainability planning. The purpose of this requirement is to promote hospital-specific planning for cost effective care at sustainable volumes. Details of this requirement are scheduled to be discussed with stakeholders and will be communicated at a later date.

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: Robyn Alvis, CFO



Mike DelTrecco, VAHHS
Julia Shaw, HCA



STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

FY2020 HOSPITAL BUDGET DECISION AND ORDER

In re: Northwestern Medical Center) Docket No. 19-010-H
Fiscal Year 2020)
_____)

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.

Northwestern Medical Center (NMC) requested an effective 3.5% increase in NPR/FPP, including requested provider transfer adjustments, and a 5.9% overall average increase in charges. On September 9, following NMC’s budget hearing, GMCB staff presentations, and deliberations, the Board approved NMC’s FY20 budget as submitted.

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.

NMC filed its original FY20 budget submission on June 28, 2019.⁶ It requested an effective 3.5% increase in its NPR/FPP, including an adjustment for two provider transfer requests,⁷ and a 5.9% average overall increase in charges. NMC FY20 Budget Submission, Narrative, 1, 6 (NMC Submission); GMCB Deliberations I, 36. NMC requested a 3.7% NPR/FPP increase which did not comply with the FY20 Guidance for two reasons. First, NMC's requested 3.7% NPR/FPP increase exceeded the FY20 Guidance's 3.5% NPR/FPP growth cap. Second, NMC's 3.7% request exceeds the 5.0% cap triggered by its FY19 budget-to-projection variance of -4.0%. FY20 Guidance, 9; Deliberations I, 9. NMC senior leadership presented the FY20 budget to the Board at a public hearing held August 23, 2019. *See* NMC FY20 Budget Presentation (Aug. 23, 2019) (NMC Presentation). On September 9, 2019, the Board approved an effective 3.5% increase in NPR/FPP for FY20, including the requested provider transfer adjustments, and a 5.9% increase in average overall charges.

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

FINDINGS

1. NMC is a prospective payment system hospital with its primary location in St. Albans, Vermont. NMC's FY20 submitted NPR/FPP accounted for approximately 4.3% of the total

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

⁶ NMC resubmitted its budget on August 9, 2019. This Order references NMC's resubmission.

⁷ NMC plans to acquire Cold Hollow Family Practice on January 1, 2020. Effective January 1, 2019, Northwestern Dermatology was no longer a hospital-owned practice. *See* NMC Presentation, 8.

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. NMC submitted its original FY20 budget on June 28, 2019 and submitted updated information on August 9, 2019. NMC requested an effective 3.5% growth in NPR/FPP, for a total of \$116,926,579, and a requested average overall charge increase of 5.9%. *See* NMC Submission, Narrative, 6 & Appendix VIII; Staff Analysis, Income Statement, 3. NMC’s growth in NPR/FPP from its FY19 projections to FY20 budget is 8.0%, excluding requested transfers. NMC Submission, Staff Analysis, Income Statement, 3. NMC’s FY19 budget-to-projection variance is -4.0%. *Id.*
3. NMC’s FY20 budget includes requests for two provider transfer adjustments. Deliberations I, 37. First, NMC transitioned a hospital-employed dermatology practice to a private practice, effective January 1, 2019, decreasing NMC’s NPR/FPP by \$711,015. *Id.* at 39. Second, NMC plans to acquire Cold Hollow Family Practice effective January 1, 2020, impacting NPR/FPP by \$941,347. *Id.* at 38. The total NPR/FPP impact of these transfers is \$230,332. When adjusted for provider transfers, NMC is effectively requesting a 3.5% increase in NPR/FPP for FY20 over its FY19 budget and an effective 7.8% increase over its FY19 projections. *See* Deliberations I, 36.
4. On September 4, 2019, the Board unanimously approved NMC’s provider transfer adjustments as submitted and subject to the notification requirements set forth in Act 143 of 2016. GMCB Meeting Minutes, 5 (Sept. 4, 2019).
5. NMC’s FY20 requested budget before incorporating provider transfer adjustments 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	54,577,516	58,075,938	6.4%
Medicaid	19,894,380	20,500,371	3.0%
Medicare	37,357,535	37,415,915	0.2%
Disproportionate Share Payments	944,549	934,355	-1.1%
All Payers	112,773,980	116,926,579	3.7%

See NMC Submission, Staff Analysis, Net Payer Revenue Changes – Payers, 4. NMC’s FY20 NPR/FPP represents a reasonable allocation of NPR/FPP by payer as compared to NMC’s FY19 budget.

6. NMC’s 5.9% requested charge increase is larger than most hospitals requested this year. Deliberations I, 11. Over the past five years, NMC’s 5-year average approved change in average overall charges is the second lowest of Vermont’s 14 hospitals at 0.8%. *Id.* at 11-12.

7. NMC's FY20 budget includes total operating expenses of \$122,388,212, an increase of approximately 5.3% over budgeted FY19 and 2.2% over projected FY19. NMC FY20 Budget Resubmission, Staff Analysis, Income Statement, 3 (Resubmission).
8. For FY20, NMC has budgeted an operating margin of -\$248,287, or approximately -0.2% and a total margin of 1.2%. *Id.* NMC projects a -6.0% operating margin and a -5.9% total margin in FY19. *Id.*
9. NMC is engaged in organization-wide cost savings initiatives. NMC Budget Submission, Narrative, 4; NMC Presentation, 15-16. It has realized savings in numerous areas including staffing, implant pricing, lab services, and an expansion of its 340B pharmaceutical program. *Id.*
10. NMC has participated as a provider in all three payer programs OneCare offers under the All-Payer Model since the program began. Deliberations I, 43. In FY18 and FY19, NMC was a provider in the Medicaid, Medicare, and Blue Cross Blue Shield of Vermont programs and plans to participate in all three programs again for the 2020 calendar year. *Id.* The portion of income that NMC receives as FPPs has progressively increased during the past three years and is growing at a faster rate than most Vermont hospitals, as set forth in the table below. *Id.*

% FPP/NPR & FPP		
FY18 Act.	FY19 Proj.	FY20 Budget
13.9%	16.9%	21.0%

NMC projects that more than one-fifth of its FY20 patient services income will be paid in FPPs. *Id.*

11. NMC has also led population health efforts in the state. NMC is a founder of RiseVT, which originated in Franklin County and is now a statewide population health program managed by OneCare. NMC Presentation, 6-7.
12. NMC is experiencing financial and operational challenges due to its electronic health record (EHR) system integration and other unexpected expenses. *Id.* 13-15. The EHR system implementation is causing issues hospital-wide, leading to longer wait times for patients and scheduling and billing issues, which are affecting NPR/FPP. *Id.* These challenges significantly lowered NMC's projected operating margin because NMC has experienced NPR/FPP declines and increased expenses after adding resources to meet patient care demands. *Id.*
13. In addition to its EHR challenges, unexpected employee insurance claims, a provider's leave, and added expenses for locums and consulting have contributed to NMC's declining projections. *Id.*

14. NMC's budget anticipates 244.50 days cash⁸ on hand in FY20. NMC Resubmission, Staff Analysis, Balance Sheet, 7. NMC expects to have 257.2 days cash on hand at the end of FY19. *Id.*
15. NMC's narrative, testimony, and other filed budget information comply with the Board's FY20 hospital budget requirements.
16. Approving NMC'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.

NMC has faced significant financial challenges in recent years that have had a negative impact on its margins and other financial health indicators. Findings, ¶¶ 8, 12-13. In addition to the challenges facing smaller, rural hospitals throughout Vermont, NMC has seen a \$3.3 million reduction in its anticipated FY19 NPR/FPP due to implementation challenges with its new EHR. Findings, ¶ 13. Despite these challenges, NMC has remained a leader in supporting population health investments and payment reform initiatives through Vermont's All-Payer Model and as a participating provider in OneCare's network. Findings, ¶ 10-11. We also encourage NMC's extensive and ongoing efforts to implement hospital-wide cost savings initiatives. Findings, ¶ 9.

NMC requested an effective NPR/FPP increase of 3.5%, after accounting for two provider transfer adjustments that the Board previously approved. Findings, ¶ 4. NMC's request triggers the 5.0% cap because of its FY19 -4.0% budget-to-projection variance. Findings, ¶ 2. Nevertheless, we conclude that NMC's requested NPR/FPP increase is realistic because the

⁸ The systemwide average is approximately 166 days cash on hand.

majority of NMC's FY19 revenue challenges stem from implementation and integration of its new EHR system, which should not reoccur in FY20. Findings, ¶ 12. The implementation affected both operating revenues and expenses, causing a significant negative impact on the hospital's operating margin and erasing NMC's positive year-to-date financial performance. Findings, ¶ 12. We conclude that NMC's negative FY19 projections are not the result of a years-long financial trend but instead are due to one-time circumstances. Findings, ¶ 12, 13. Accordingly, we approve NMC's request for a 3.5% effective increase in its FY20 NPR/FPP, including approved provider transfer adjustments, over FY19's approved budget.

We also approve NMC's request to increase its overall charges by 5.9% in FY20. Though 5.9% is a relatively large one-year increase, we believe it is reasonable based on Northwestern's circumstances. *See* Findings, ¶ 6. We note that 5.9% 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, NMC's budget is approved for FY20 subject to the following terms and conditions:

- A. NMC's FY20 NPR/FPP budget is approved at an effective growth rate of 3.5%, after approved provider transfer adjustments, over its FY19 budget, or \$116,926,579, as set forth below.
- B. NMC's overall average charge increase is approved at not more than 5.9% over current approved levels.
- C. Beginning on or before November 20, 2019, and every month thereafter, NMC 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. NMC 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, NMC shall file with the Board, in a form and manner prescribed by GMCB staff, such information as the Board determines necessary to review NMC's FY19 actual operating results.
- F. NMC 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, 15 days after the hospital receives the document(s), or by January 31, 2020, whichever is earlier.

- G. NMC shall timely file all forms and information required for provider acquisitions and/or transfers as determined by GMCB staff, if applicable.
- H. NMC shall meet with Board leadership, either telephonically or in person, on a bi-monthly basis to discuss NMC operating performance and related matters.
- I. NMC shall work with GMCB staff to prepare and submit a sustainability plan, with format and content to be determined by GMCB staff in consultation with hospital representatives.
- 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: October 1, 2019
 Montpelier, Vermont

s/ Kevin Mullin, Chair)	
)	GREEN MOUNTAIN
s/ Jessica Holmes)	CARE BOARD
)	OF VERMONT
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).