

Green Mountain Care Board
144 State Street
Montpelier, VT 05602

[phone] 802-828-2177
www.gmcbboard.vermont.gov

Kevin Mullin, Chair
Jessica Holmes, PhD
Robin Lunge, JD, MHCDS
Maureen Usifer
Tom Pelham
Susan Barrett, JD, Executive Director

October 1, 2019

DELIVERED ELECTRONICALLY

John Brumsted, MD
President and CEO, UVMHN
Porter Medical Center
115 Porter Drive
Middlebury, VT 05753

Dear Dr. Brumsted:

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 notify the Board of any impact on its operating performance from the upcoming implementation of the EPIC system.

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: Seleem Choudhury, PhD, President and COO, PMC
Jennifer Bertrand, CFO, PMC
Todd Keating, CFO, UVMHN
Mike DelTrecco, VAHHS





STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

FY2020 HOSPITAL BUDGET DECISION AND ORDER

In re: Porter Medical Center)
Fiscal Year 2020)
_____)
Docket No. 19-011-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.

Porter Medical Center (Porter) requested a 3.4% increase in NPR/FPP,⁴ a 0% overall change in charges, and a 2.6% increase to its effective commercial rate. On September 11, 2019,

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.

⁴ Porter requested provider transfer and accounting adjustments, which the Board approved as submitted. Initial analysis showed those adjustments had a neutral impact on Porter’s NPR/FPP request. However, following additional analysis, those adjustments reduced Porter’s effective NPR/FPP request by 0.1%. The Board approved Porter’s FY20 NPR/FPP at 3.5%, before adjustments and an effective FY20 NPR/FPP increase of 3.4%, including adjustments. Approved Budgets, 5.

following Porter's budget hearing, GMCB staff presentations, and deliberations, the Board approved Porter's FY20 budget as submitted.

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, 9.⁵ 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,

⁵ 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>.

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.

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.⁶ 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.

Porter filed its FY20 budget submission July 1, 2019.⁷ It requested an effective 3.4% increase in its NPR/FPP, including an adjustment for two provider transfer requests, an ACO accounting adjustment,⁸ a 0.0% increase in charges, and a 2.6% increase in the commercial effective rate. Porter's request was compliant with FY20 Guidance. *See* FY20 Guidance, 9. Porter FY20 Budget Submission, (Porter Submission); GMCB Deliberations I, 77. Porter and University of Vermont Health Network (UVMHN) senior leadership presented the FY20 budget to the Board at a public hearing held August 26, 2019. *See* University of Vermont Health Network FY20 Budget Presentation (Aug. 26, 2019) (Porter Presentation). On September 11, 2019, the Board approved a 3.4% increase in NPR/FPP for FY20, including the requested provider transfer adjustments, accounting adjustments, a 0.0% increase in overall average charges, and a 2.6% increase in the commercial effective rate.

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

⁶ Changes to the actual charges vary by hospital and across service lines.

⁷ Porter updated its FY19 projection on September 6, 2019. This Order references Porter's updated FY19 projection.

⁸ Effective June 1, 2019, Porter acquired a general surgery practice and a radiology practice. Porter's FY20 budget included an ACO accounting adjustment reclassifying payment reform investments as NPR/FPP deductions.

FINDINGS

1. Porter is a critical access hospital with its primary location in Middlebury, Vermont. Porter is part of UVMHN. Porter's FY20 submitted NPR/FPP accounted for approximately 3.2% 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. Porter submitted its FY20 budget on July 1, 2019, seeking an effective 3.4% growth in NPR/FPP, including requested adjustments, a total NPR/FPP of \$87,487,539, a 0.0% overall average change in charges, and a 2.6% increase in the commercial effective rate. Porter's growth in NPR/FPP from its FY19 projections to FY20 budget is 2.9%. *See* Porter Submission, Narrative, Appendix VIII. Porter updated its FY19 projection on September 6, 2019 to reflect its Medicare Cost Report settlement. *See* Fiscal Year 2020 Vt. Hosp. Budget Board Deliberations, 16 (Sept. 11, 2019) (Deliberations II).
3. Like most Vermont hospitals, Porter faces challenges from workforce shortages and wage pressures, increasing patient acuity, and aging facilities and equipment. Porter Presentation, 29. Porter provides financial support to its affiliated skilled nursing facility and is expanding palliative care services, optimizing perioperative services, and continuing investments in population health initiatives. *Id.* at 30.
4. Porter requested a 0.0% increase in overall average charges and a 2.6% increase in its commercial effective rate. *See id.* at 31.
5. Porter's FY20 budget included two provider transfer adjustments. First, Porter acquired an independent general surgeon effective June 1, 2019, affecting NPR/FPP by \$361,239. Second, Porter acquired an independent radiology practice effective June 1, 2019, affecting NPR/FPP by \$749,719. *See* Narrative, 17.
6. Porter also requested an accounting adjustment to its NPR/FPP for accountable care organization reform investments that it reclassified from an expense to a deduction from NPR/FPP, affecting Porter's NPR/FPP by -\$1,067,391. *See* Narrative, 6.
7. On September 11, 2019, the Board unanimously approved Porter's provider transfer and accounting adjustments, as submitted, subject to the notification requirements set forth in Act 143 of 2016. GMCB Meeting Minutes (Sept. 11, 2019).
8. Porter's FY20 budget includes total operating expenses of \$90,277,341, an increase of approximately 4.7% over budgeted FY19 and 4.5% over projected FY19. Porter Submission, Staff Analysis, Income Statement, 3.
9. Porter'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	45,545,720	46,137,651	1.3%
Medicaid	7,364,104	10,269,866	39.5%
Medicare	31,181,562	30,582,182	-1.9%
Disproportionate Share Payments	439,130	497,840	13.4%
All Payers	84,530,515	87,487,539	3.5%

See Porter Submission, Staff Analysis, Net Payer Revenue Changes – Payers, 4.⁹ Porter’s proposed FY20 NPR/FPP represents a reasonable allocation by payer as compared to Porter’s FY19 budget.

- Porter participates 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. Narrative, Appendix V; Deliberations II, 24. The portion of income that Porter receives as FPPs has progressively increased during the past three years, as set forth in the table below. Deliberations II, 24.

% FPP/NPR & FPP		
FY18 Act.	FY19 Proj.	FY20 Budget
13.6%	19.8%	23.1%

Porter projects that almost one quarter of its FY20 patient services income will be paid in FPPs. *Id.*

- OneCare allows participating hospitals to transfer OneCare-attributed Medicare patients to skilled nursing facilities (SNFs) when they are stable without requiring a minimum three-day inpatient hospital stay. See Porter Presentation, 33. Because the cost of care at SNFs is generally lower than that of hospitals, this reduces health care costs by reducing the number of days patients must remain at higher cost hospital facilities. See *id.* From May 2018 to May 2019, Porter saved more than \$900,000 in system costs by treating patients at its SNF for three days rather than the hospital, inpatient setting. *Id.*
- Porter has been a leader among the critical access hospitals in the OneCare network, working with the Centers for Medicare and Medicaid Services and other Vermont critical access hospitals to establish cost-report accounting procedures to document care delivered to OneCare-attributed patients. See UVMHN Budget Hearing Tr., 76:24-77:05 (Aug. 26, 2019) (Hearing Tr.).
- For FY20, Porter has budgeted an operating margin of \$3,590,524, or approximately 3.8% and a total margin of 4.4%. See Deliberations II, 21; Porter Submission, Staff Analysis,

⁹ The “All Payers” total NPR/FPP of 3.5% represents Porter’s requested FY20 NPR/FPP increase before Porter’s provider transfer adjustments are added to its FY20 budget.

Income Statement, 3. Porter projects a 4.5% operating margin and total margin of 5.1% in FY19. *See* Deliberations II, 21; Porter Submission, Staff Analysis, Income Statement, 3.

14. Porter's budget anticipates 125.31 days cash on hand¹⁰ at the conclusion of FY20 and 134.88 days at the conclusion of FY19. Porter Submission, Staff Analysis, Balance Sheet, 7.
15. Porter's narrative, testimony, and other filed budget information comply with the Board's FY20 hospital budget requirements.
16. Approving Porter'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.

We approve Porter's effective 3.4% increase in its FY20 NPR/FPP, including approved accounting and provider transfer adjustments. Porter's request complies with FY20 Guidance requirements. *See* FY20 Guidance; Findings, ¶ 2. Additionally, Porter's NPR/FPP increase furthers the hospital's efforts to address workforce challenges, invest in population health initiatives, support rehabilitation and nursing programs, and expand palliative care services in the community. Findings, ¶ 3.

We also approve Porter's average overall charge increase of 0.0% and 2.6% increase in the commercial effective rate. In approving this request, we acknowledge that Porter, through ongoing organization-wide efforts, and its affiliation with UVMHN, has improved its financial health during the past several years. Additionally, Porter's requested increase will help to address

¹⁰ The systemwide average is 166 days cash on hand.

annual medical inflation, some of which is beyond the control of a particular hospital, and help Porter maintain positive operating margins. Findings, ¶ 13. We note that 0.0% and 2.6% are not-to-exceed caps on the hospital's overall average charge increase and commercial effective rate, respectively, and not a guaranteed reimbursement increase from any particular payer.

In approving this budget, we also note that hospitals are required to timely report any event that could materially change the approved NPR/FPP budget, including accounting changes, in their monthly monitoring reports and expect Porter to inform the Board of these changes in a timely manner in the future.

ORDER

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

- A. Porter's FY20 NPR/FPP budget is approved at an effective 3.4% growth rate, after approved adjustments, over its FY19 budget, or \$87,487,539.
- B. Porter's overall average charge increase is approved at not more than 0.0% and not more than 2.6% for commercial effective rate over current approved levels.
- C. Beginning on or before November 20, 2019, and every month thereafter, Porter 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. Porter 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, Porter shall file with the Board, in a form and manner prescribed by GMCB staff, such information as the Board determines necessary to review Porter FY19 actual operating results.
- F. Porter shall file with the Board one copy of its 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 its statements or by January 31, 2020, whichever is earlier.
- G. Porter shall timely file all forms and information required for provider acquisitions and/or transfers as determined by GMCB staff, if applicable.

- H. Porter shall notify the Board of any impact on its operating performance from the upcoming Epic system implementation.
- I. 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.
- J. All materials required above shall be provided electronically, unless doing so is not practicable.
- K. 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).