

STATE OF VERMONT  
GREEN MOUNTAIN CARE BOARD

**FY19 HOSPITAL BUDGET DECISION AND ORDER**

In re: Copley Hospital )  
Fiscal Year 2019 )  
\_\_\_\_\_ )  
Docket No. 18-003-H

**Introduction**

In July, the Green Mountain Care Board (GMCB, or the Board) began its review of the Fiscal Year 2019 (FY19) budgets of Vermont’s 14 regulated hospitals for their compliance with policy guidelines and financial targets, including a net patient revenue (NPR) growth target of 2.8% with an additional allowance of up to 0.4% for health care reform spending. *See* FY 2019 Hospital Budget Guidance and Reporting Requirements.<sup>1</sup> The FY19 submissions reflected a system-wide average NPR growth request of 2.9% (including health care reform investments) over the approved Fiscal Year 2018 (FY18) base, and an estimated weighted average rate increase of 3.1%. For the purposes of our orders, NPR is inclusive of budgeted fixed prospective payments (FPP) for those hospitals participating in health care reform programs, such as Accountable Care Organization (ACO) programs, that provide FPP.

Following a series of discussions at public board meetings, presentations by hospital leadership and GMCB hospital budget staff, and a public comment period that extended to September 10, 2018, the Board on September 12, 2018 voted to approve a 3.2% change in NPR, accept a 0.1% allowance for health care reform investments, and approve a 4.5% increase in rate for Copley Hospital.

**Legal Framework**

Hospital budget review is one of the Board’s core regulatory responsibilities. 18 V.S.A. §§ 9375(b)(7), 9456. Annually no later than September 15, the Board must establish each hospital’s budget, and is required to issue a written decision reflecting the established budget by October 1. 18 V.S.A. § 9456(d)(1). In making its decision, 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 a hospital’s budget based on its showing of exceptional or unforeseen circumstances, *see* 18 V.S.A. § 9456(f), or based on the Board’s independent review of a hospital’s budget performance. GMCB Rule 3.000 (*Hospital Budget Review*) § 3.401.

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<sup>1</sup> The hospital’s 2019 budget materials, including its budget narrative and responses to questions, are available on the Board’s website at: <http://gmcboard.vermont.gov/hospitalbudgets>. Transcripts of the hospital budget hearing are available upon request.

The Board first adopted guidelines for the hospital budget review process in 2013, and last updated them this past April.<sup>2</sup> As a key performance indicator for FY19, the Board set an overall system NPR<sup>3</sup> growth target of 2.8% over each hospital's approved FY18 budget base. The Board established an additional NPR growth allowance of up to 0.4% for health care reform activities, investments and initiatives that reduce health care costs and improve quality of care over the long term by 1) supporting the transition toward value-based purchasing, 2) increasing access to primary care, 3) reducing deaths from suicide and/or drug overdose, and/or 4) reducing the prevalence and/or morbidity of chronic disease. Hospitals requesting the additional allowance must specifically identify the health reform investment(s) in their budgets and provide a plan to measure the return on investment.

### **FY19 Review Process**

The Board and its staff have reviewed and analyzed FY19 budget information submitted by the hospitals which includes detailed financial information, payment and delivery reform investments, utilization data, population health goals, quality measure results, provision of mental health services, patient access data, budget-to-budget NPR growth rates, prior budget performance, and requested rate increases. In addition, the Board has taken into consideration comments from the Office of the Health Care Advocate (HCA) and from members of the public. The Board considered each hospital's unique circumstances, including its health care reform efforts and its efforts to address issues identified in its community health needs assessment (CHNA).

As submitted for FY19, the hospitals requested a system-wide NPR increase of 2.9% over their FY18 base NPR. Most hospitals included health care reform investments at the 0.4% allowance. Following presentations by hospital leadership, ongoing discussions between Board members, GMCB staff and the hospitals, input from members of the public and the HCA, and Board-approved adjustments to some hospitals' FY18 base NPR<sup>4</sup>, we establish an actual system-wide hospital NPR growth rate over FY18 of 2.1%.

In addition, the Board has reviewed each hospital's proposed rate increase, which is the average overall amount by which a hospital increases its charges.<sup>5</sup> Notably, each respective payer—Medicare, Medicaid and commercial—does 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

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<sup>2</sup> The FY19 Hospital Budget Guidance and Reporting Requirements are available at <http://gmcboard.vermont.gov/sites/gmcb/files/GMCB%20FY19%20Hospital%20Budget%20Guidance%20%20Reporting%20Requirements%20Final%20Apr23%20Update.pdf>.

<sup>3</sup> NPR is a key indicator used to assess changes in hospital budgets and includes payments received from patients, government, and insurers for patient care, but does not include hospital revenues from activities such as cafeterias, parking, and philanthropy.

<sup>4</sup> After Board-approved adjustments to hospitals' FY18 base NPR were finalized on September 11 and 12, the hospital-proposed systemwide NPR growth rate was 2.2%.

<sup>5</sup> Actual changes in the rates charged by the hospital will vary across service lines and goods and services provided by the hospital.

unique fee schedule and update factors. Taking into consideration all adjustments, we reduce the estimated overall system weighted average rate increase from the submitted 3.1% to 2.7%.

Finally, as we move into Year 2 of the All-Payer ACO Model Agreement, the Board, through a transparent public process, will continue to refine how it conducts its hospital budget, ACO budget and certification, and health insurance rate review processes to better understand and align its regulatory work. We encourage the hospitals to continue their efforts to favorably position their institutions, individual providers, and their served populations as we move away from a fragmented, fee-for-service system to an integrated delivery system and value-based provider reimbursements.

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

### **Findings**

1. Copley Hospital (Copley) is a critical access community hospital with its primary location in Morrisville. The hospital's FY19 submitted NPR accounted for approximately 2.8% of the total submitted NPR for all 14 regulated hospitals in the State.
2. Copley submitted its FY19 budget on June 28, 2018 seeking a 5.9% change in NPR from budgeted FY18, a total NPR of \$72,037,976, and a 7.9% rate increase.
3. Copley requests 0.1%, or \$66,351, for health care reform investments. Copley reported investments in social workers in the emergency department, a RiseVT Program Coordinator, health promotion on social media, and community action grants.
4. Copley's FY19 budget includes total operating expenses of \$71,740,825, an increase of approximately 3.5% over budgeted FY18.
5. Copley's FY19 budget includes reasonable estimates of \$21,586,950 in Medicare NPR, an increase of 1.6% over budgeted FY18 and 6.0% over projected FY18.
6. Copley's FY19 budget includes reasonable estimates of \$5,703,507 in Medicaid NPR, a decrease of 14.1% from budgeted FY18, and increase of 3.3% over projected FY18.
7. Copley's FY19 budget includes reasonable estimates of \$44,289,151 in commercial NPR, an increase of 12.5% over budgeted FY18 and 11.3% over projected FY18.
8. Copley is not participating in any ACO programs in 2018.
9. Copley's NPR growth from projected FY18 to budgeted FY19 is 8.4%.
10. For FY19, Copley has budgeted an operating margin of \$1,485,911 or approximately 2.0%, and a total margin of 2.5%. Copley projects negative margins in FY18.
11. The FY19 budget indicates 66.4 days cash on hand.

12. Based on identified community needs, Copley has worked to develop programs to reduce preventable visits, reduce chronic health conditions, and focus on screening in preventative care settings.
13. Copley's narrative, testimony, and other filed budget information comply with the Board's FY19 hospital budget requirements.
14. After reviewing Copley's submission, the Board and the HCA posed written questions and the hospital provided written responses. Copley participated in a public hearing before the Board on August 20, 2018, where it presented information and answered questions from the Board and the HCA, and the Board discussed all 14 hospital budgets at subsequent public meetings. On September 12, 2018, the Board established Copley's FY19 budget.
15. Approving Copley'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**

Based on our review of the budget submission and discussions at two consecutive meetings, the Board first reduces Copley's NPR growth from 5.9% to 3.2%, inclusive of the requested 0.1% in health care reform investments. Although the reduced NPR remains above our FY19 budget guidance target, we conclude that it is reasonable.

We also reduce Copley's budgeted increase in rate—the highest requested increase of any of the 14 regulated hospitals—from 7.9% to 4.5%. We are concerned that the hospital is relying too much on commercial rate increases to address budgetary challenges and resolve ongoing financial concerns, rather than considering other business changes, such as finding additional expense reductions and implementing operational efficiencies, to achieve a positive margin. We are concerned about the hospital's sustainability if utilization continues to decline and expenses continue to exceed NPR. We note that the increase approved by the Board does not constrain negotiations between the hospital and insurers, and that actual prices paid by Vermont commercial ratepayers for health care services should reflect underlying cost and market rates for comparable services.

The Board therefore establishes Copley's FY19 Net Patient Revenue at \$70,201,316, an increase of 3.2% over its FY18 budget and inclusive of the 0.1% allowance for health care reform investments, and approves a 4.5% increase in rate.

### **Order**

Based on our findings and authority granted by Chapter 221, Subchapter 7 of Title 18, Copley's budget is approved for FY19 subject to the following terms and conditions:

- A. Copley's FY19 NPR budget is approved at 3.2% growth over its FY18 budget, or \$70,201,316.
- B. Copley's overall rate is established at 4.5% over current approved levels.
- C. Beginning on or before November 19, 2018 and every month thereafter, Copley shall file with the Board the actual year-to-date FY19 operating results for the prior month. The report shall be in a form and manner as prescribed by the Board.
- D. Copley shall advise the Board of any material changes to FY19 revenues and expenses, or to the assumptions used in determining its budget, including:
  - a. changes in Medicaid, Commercial, or Medicare reimbursement;
  - b. additions or reductions in programs or services to patients; and
  - c. any other event that could materially change the approved NPR budget.
- E. On or before January 31, 2019, Copley shall file with the Board, in a form and manner prescribed by the Board, such information as the Board determines necessary to review the Hospital's FY18 actual operating results in order to determine whether the Hospital's budget meets the Board's budget performance review policy.
- F. On or before January 31, 2019, Copley shall file with the Board one copy of its FY18 audited financial statements and associated management letter(s), as well as the hospital's parent organization's audited consolidated financial statements, if applicable.
- G. Copley shall timely file all forms as required for physician acquisitions and/or transfers, if applicable.
- H. Copley shall consult with Vermont Information Technology Leaders (VITL) to facilitate patients' ability to electronically consent to adding their clinical data to the Vermont Health Information Exchange (VHIE).
- I. Copley shall explore the option of providing health insurance coverage for its employees through a self-insured program that participates in OneCare Vermont, if the hospital provides a self-insured program.
- 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: September 28, 2018  
Montpelier, Vermont

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

Filed: September 28, 2018

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).*