

STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

FY19 HOSPITAL BUDGET DECISION AND ORDER

In re: Grace Cottage Hospital) Docket No. 18-006-H
Fiscal Year 2019)
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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.¹ 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 11, 2018 voted to approve 3.5% in growth of NPR and a 3.2% increase in rate for Grace Cottage Hospital (Grace Cottage).

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

¹ 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's independent review of a hospital's budget performance. GMCB Rule 3.000 (*Hospital Budget Review*) § 3.401.

The Board first adopted guidelines for the hospital budget review process in 2013, and last updated them this past April.² As a key performance indicator for FY19, the Board set an overall system NPR³ 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, utilization data, payment and delivery reform investments, 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 NPR⁴, 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.⁵ 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

² 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>.

³ 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.

⁴ 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%.

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

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 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 of Fact, Conclusions and Order.

Findings

1. Grace Cottage is a 19-bed critical access hospital and Vermont's smallest hospital, located in Townshend. The hospital's FY19 submitted NPR accounted for approximately 0.7% of the total submitted NPR for all 14 regulated hospitals in the State.
2. Grace Cottage submitted its FY19 budget on June 26, 2018, including total NPR of \$19,292,581 and seeking a 3.5% increase in NPR of \$643,507, and a rate increase of 3.2%.
3. Grace Cottage's FY19 budget includes total operating expense of \$20,329,626, a decrease of approximately 0.8% from budgeted FY18, and an increase of approximately 4.7% from projected FY18.
4. Grace Cottage's budget includes reasonable estimates of \$12,228,091 in Medicare NPR, an increase of 1.3% over budgeted FY18, and 5.0% over projected FY18.
5. Grace Cottage's FY19 budget includes reasonable estimates of Medicaid NPR of \$1,491,266, a decrease of 4.7% from budgeted FY18, and an increase of 6.7% over projected FY18.
6. Grace Cottage's FY19 budget includes reasonable estimates of \$5,573,224 in commercial NPR, an increase of 11.2% over budgeted FY18 and 6.7% over projected FY18.
7. Grace Cottage has not requested additional NPR for investments in health care reform. The hospital is not participating in any Accountable Care Organization (ACO) programs in 2018, and is not planning to participate in 2019.
8. Grace Cottage's growth in NPR from projected FY18 to budgeted FY19 is 5.6%.
9. For FY19, Grace Cottage has budgeted an operating margin of 0.7% and is projecting an operating loss in FY18. The hospital has budgeted a total margin of 4.2% for FY19.

10. The FY19 budget reflects 92.5 days cash on hand.
11. Consistent with recognized community needs, the hospital has developed programs in the areas of aging, breast cancer, colorectal cancer, diabetes, heart health, and mental health.
12. Grace Cottage's narrative, testimony, and other filed budget information comply with the Board's FY19 hospital budget requirements.
13. After reviewing Grace Cottage's submission, the Board and the HCA posed written questions and Grace Cottage provided written responses. Grace Cottage participated in a public hearing before the Board on August 27, 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 11, 2018, the Board established Grace Cottage's FY19 budget.
14. Approving Grace Cottage's budget as outlined below will promote the efficient and economic operation of Grace Cottage, and is consistent with the current Health Resource Allocation Plan (HRAP).

Conclusions

Grace Cottage has submitted a budget that we find is reasonable and consistent with the Board's guidelines, policies and prior orders. Although its requested NPR is above the Board's target, we recognize that Grace Cottage is projecting a negative operating margin for FY18, has budgeted only a minimal operating margin for FY19, and has a below average number of days cash on hand. In addition, the hospital has recently hired additional providers, supporting its 3.5% NPR growth rate.

We also conclude that Grace Cottage's budgeted 3.2% increase in rate is reasonable. The requested rate increase is lower than those that the hospital has submitted, and the Board has approved, for FYs 2015 through 2018. In addition, the most recent information available indicates that the majority of Grace Cottage's physician charges fall below the statewide average. See http://www.healthvermont.gov/sites/default/files/documents/pdf/CPT_3A_2018.pdf.⁶ We note that our approval does not constrain negotiations between the hospital and insurance carriers, and that actual rates should reflect underlying cost and market rates for comparable services.

The Board therefore establishes Grace Cottage Hospital's FY19 Net Patient Revenue at \$19,292,581, an increase of 3.5% from its FY18 budget. The Board additionally approves a 3.2% overall increase in rate.

⁶ As explained in the linked document, these charges are "gross charges," and do not represent what any particular patient or insurer may be billed for the listed procedures.

Order

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

- A. Grace Cottage's FY19 NPR budget is approved at 3.5% growth over its FY18 budget, or \$19,292,581.
- B. Grace Cottage's overall rate is established at 3.2% over current approved levels.
- C. Beginning on or before November 19, 2018 and every month thereafter, Grace Cottage 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. Grace Cottage 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, Grace Cottage 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, Grace Cottage 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. Grace Cottage shall timely file all forms as required for physician acquisitions and/or transfers, if applicable.
- H. Grace Cottage 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. Grace Cottage 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

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

Filed: September 28, 2018

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

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