

STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

FY19 HOSPITAL BUDGET DECISION AND ORDER

In re: Northwestern Medical Center) Docket No. 18-010-H
Fiscal Year 2019)
_____)

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 12, 2018 voted to approve 3.2% in growth of NPR and a 2.0% increase in rate for Northwestern Medical Center (NMC).

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.

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 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 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

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.

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. NMC is a community hospital with its primary location in St. Albans. The hospital's FY19 submitted NPR accounted for approximately 4.3% of the total submitted NPR for all 14 regulated hospitals in the State.
2. NMC is seeking a 3.2% increase in NPR from budgeted FY18 (with adjustments, *see* ¶ 3, below), for a total NPR of \$112,773,980, and a rate increase of 2.0%.
3. NMC requested an adjustment of \$3,249,654 to its FY18 NPR budget base, in recognition of provider transfers and acquisitions in the areas of occupational health, ENT, neurology, and general surgery.
4. NMC's FY19 budget includes total operating expenses of \$116,243,347, an increase of approximately 4.6% over budgeted FY18 and 3.8% over projected FY18.
5. NMC's budget includes reasonable estimates of \$37,357,535 in Medicare NPR, an increase of 16.7% over budgeted FY18 and 5.4% over projected FY18.
6. NMC's FY19 budget includes reasonable estimates of Medicaid NPR of \$19,894,380, an increase of 11.8% over budgeted FY18, and a decrease of 5.9% from projected FY18.
7. NMC's FY19 includes reasonable estimates of commercial NPR of \$54,577,516, a decrease of 0.9% from budgeted FY18, and an increase of 13.1% over projected FY18.⁶
8. NMC requested an additional 0.4% NPR, or \$424,513, for investments in health care reform. The investments include funding for infrastructure to implement All-Payer Model.

⁶ NMC is one of four hospitals that separately reported NPR from fixed prospective payments (FPP) for all three ACO Programs – commercial, Medicaid, and Medicare – in their FY19 budgets. NMC's total FY19 budget commercial NPR consists of \$50,955,478 in conventional NPR (*e.g.*, fee-for-service payments) and \$3,622,038 in NPR from FPP and reserves. Our decision approving a rate increase in this order applies to the former.

9. The hospital is participating in the Medicaid, Medicare, and Commercial Next Generation ACO programs in 2018, and plans to continue its participation in ACO programs with all three payers in 2019.
10. NMC's growth in NPR from projected FY18 to budgeted FY19 is 6.3%, without the adjustment to its budget base (*see* ¶ 3, above). With the adjustment, the NPR growth is 3.2%.
11. For FY19, NMC has budgeted an operating margin of 2.3%. The hospital has budgeted a total margin of 3.2% for FY19.
12. The FY19 budget reflects 306.5 days cash on hand.
13. Consistent with recognized community needs, the hospital has developed programs in the areas of mental health and substance abuse, obesity, smoking, cancer, suicide, and domestic and sexual abuse. NMC has taken a leading role in primary prevention through the RiseVT program that encourages healthy lifestyles.
14. NMC's narrative, testimony, and other filed budget information comply with the Board's FY19 hospital budget requirements.
15. After reviewing NMC's submission, the Board and the HCA posed written questions and NMC provided written responses. NMC participated in a public hearing before the Board on August 22, 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 NMC's FY19 budget.
16. Approving NMC's budget as outlined below will promote the efficient and economic operation of NMC, and is consistent with the current Health Resource Allocation Plan (HRAP).

Conclusions

Initially, we agree that NMC's FY18 budget base should be adjusted for provider transfers and acquisitions in the areas of occupational health, ENT, neurology, and general surgery. Including these within the budget base is consistent with our policy on provider transfers and acquisitions.

We next conclude that NMC has submitted a budget that is reasonable and conforms to the Board's guidelines, policies and prior orders. NMC's requested NPR growth rate of 3.2%, inclusive of the 0.4% allowance for health care reform investments, is at the target set by the Board.

We also conclude that NMC's budgeted 2.0% increase in rate, the lowest requested FY19 rate increase of all of the 14 regulated hospitals, is reasonable. We note that the approved rate increase 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 NMC's FY19 Net Patient Revenue at \$112,773,980 which, after Board approved adjustments, is an increase of 3.2% from its FY18 budget base. The Board additionally approves an overall 2.0% increase in rate.

Order

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

- A. NMC's FY19 NPR budget is approved at 3.2% growth over its FY18 budget base with Board-approved adjustments and inclusive of a 0.4% allowance for health care reform investments, or \$112,773,980.
- B. NMC's commercial rate is established at 2.0% over current approved levels.
- C. Beginning on or before November 19, 2018 and every month thereafter, NMC 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. NMC 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 budget as approved.
- E. On or before January 31, 2019, NMC 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, NMC 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. NMC shall timely file all forms as required for provider acquisitions and/or transfers, if applicable.
- H. NMC 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. NMC 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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