STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

In re: Grace Cottage Hospital	)	Docket No. 15-006-H
Budget for Fiscal Year 2016	)	
	)	**ORDER**
	)	

INTRODUCTION

This year's hospital budget review process continues the progress made over the last two years. The Green Mountain Care Board has carefully reviewed all of the information submitted by the hospitals and analyzed, deliberated at multiple public meetings, and established each hospital's budget. Again, the hospitals worked hard to meet the policy guidelines and targets established by the Board in 2013, including the 3.6% cap on net patient revenue (NPR) growth (inclusive of spending on credible health reform). As a result, revenue from patient care at Vermont's 14 hospitals is budgeted to rise by 3.5% in fiscal year (FY) 2016 above the approved FY2015 budgets, although, as explained below, this translates to system growth of 3.3%.

We begin this Order by reviewing the legal framework applicable to the hospital budget process. Next, we set out a number of general observations and conclusions about this year's process. Finally, we present the specific Findings and Orders that support our decision establishing the FY2016 budget of Grace Cottage Hospital (GCH, or the Hospital).

LEGAL FRAMEWORK

The Vermont Legislature delegated specific powers and duties to the Board, including to "[r]eview and establish hospital budgets." 18 V.S.A. § 9375(b)(7); 18 V.S.A. § 9456. Each year, the Board must "establish" each hospital's budget by September 15 and must issue a written decision to each hospital by October 1. 18 V.S.A. § 9456(d)(1). The Board may adjust a budget established under this section upon a hospital's showing of need based upon exceptional or unforeseen circumstances, *id.* § 9456(f), or based on the Board's independent review of a hospital's performance under its budget, GMCB Rule 3.000, § 3.401.

The Board's decision, as reflected in this Order, is based on the Board's review of the record in light of 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.

Beginning in late 2012, the Board convened a public discussion aimed at developing policy guidance for this year's budget review. Over the course of several months, the Board received, reviewed, and discussed public comments on hospital budget policy and devoted several of its meetings to the public discussion of these issues. As a result, the Board adopted a policy governing the hospital budget review process for FY14-16 in February 2013, followed in May 2013 by separate written policies on enforcement, physician transfers, and community needs assessments.[1]

Those policies establish two key parameters for the hospitals' FY16 budgets: First, the Board set an overall system net patient revenue growth cap of 3.0% over the hospitals' approved FY15 budget bases. Net patient revenue includes payments hospitals receive from patients, government, and insurers for patient care, but does not include revenues from activities such as cafeterias, parking, and philanthropy. A key indicator used to assess changes in hospital budgets, net patient revenue generally tracks closely with hospital expenditures. In the Board's FY16 Hospital Budget Submission Reporting Requirements, it advised the hospitals that the 3.0% growth target was "inclusive of any provider tax increases and any costs associated with unbudgeted capital investments for which the GMCB approves a Certificate of Need."[2]

Second, the Board established an additional NPR allowance for FY16 of up to 0.6% for "credible health reform proposals." Hospitals bear the burden to convince the Board that expenditures listed as health reform are truly investments in a reformed delivery system. The Board offered the following categories as examples of reform initiatives that the Board may deem credible:

a. Collaborations to create a "system of care"
b. Investments in shifting expenditures away from acute care
c. Investments in population health improvement
d. Participation in approved payment reform pilots
e. Enhanced primary care and Blueprint initiatives
f. Shared decision making and "Choosing Wisely" programs

FY16 REVIEW PROCESS

The Board and its staff carefully reviewed and analyzed all of the FY16 budget information submitted by the hospitals, including utilization information, prior period budget performance, financial and other performance indicators, staffing needs, capital expenditure needs, budgeted operating surplus, and all public comments submitted to the Board. Where appropriate, the Board made comparisons using key indicators and statistics with Vermont, regional, and national peers. In all cases, the Board carefully considered each hospital's unique circumstances, including its health care reform efforts and its work to address issues identified in its community health needs assessment.

[1] The policy documents are available at http://www.gmcboard.vermont.gov/hospital_budgets/policies.
[2] The FY15 Hospital Budget Submission Reporting Requirements document is available at http://gmcboard.vermont.gov/hospitalbudgets.

As explained above, the Board chose NPR as its key budget measure and target for FY14-16 because it is a good proxy for the amount of "new money" each hospital intends to spend in a given year. As the Board's staff explained during the public meetings leading up to its budget decisions, the FY16 budgets, as submitted, asked for a systemwide NPR increase of 3.6%, or approximately $79.8 million, over the hospitals' FY15 budgets. Thus, using hospital NPR growth alone as a measure, the aggregate increase sought by the hospitals for FY16 was consistent with the 3.6% growth cap imposed by the Board's budget guidance.

NPR growth is a useful measure of the extent to which hospital budgets impact overall health care costs, but it may not, by itself, tell a complete story. For example, if a hospital were to divest itself of a particular service line, and that service line was going to continue to exist and serve the community through a different entity, the hospital's budget would show—accurately and appropriately—a decrease in NPR equal to the expected NPR of that service line. However, the NPR associated with that service line would still be part of Vermont's health care system, albeit flowing to an entity other than the hospital. Therefore, the Board would have to adjust the hospital's requested NPR by adding back the expected NPR for the divested service line in order to make the change in the hospital's NPR better reflect the amount of new money in the system resulting from the hospital's budget. It is critical to note that in doing so the Board is not modifying the hospital's requested budget in any way. Rather, the Board is making an adjustment to its own measurement of the hospital's budget, so that we can more accurately understand and report to the public the amount of new money being added to the health care system. [3]

In our review this year, we identified six acquisitions or divestitures of service lines or practices requiring such adjustments. Each will be addressed in the findings of the hospitals at issue. As a result of those changes, the Board arrived at an adjusted NPR growth figure of 3.3%, or $74.4 million, for FY16. This adjusted figure is meant to more accurately reflect actual growth—"new money" in the health care system at large—than the NPR growth reflected in the budgets submitted by the hospitals.

In addition to NPR, the Board reviewed and established each hospital's proposed rate increase. By "rate increase" we mean the overall average of the amounts by which a hospital must increase its prices to attain its NPR increase. The actual prices paid by each commercial payer can vary because they are established through contract negotiations. Medicaid and Medicare prices are not typically negotiable and reimbursement is instead established through each payer's unique fee schedules and update factors. In addition, rates can vary based on changes in the distribution of Medicaid's disproportionate share hospital payments and changes in bad debt and free

[3] Similarly, if a previously non-affiliated entity becomes part of a hospital, the hospital's NPR would increase by the NPR of the newly acquired entity. That growth in the hospital's budget, however, would not represent growth in the health care system at large. Accordingly, the Board would subtract the NPR introduced by the acquired entity in order to make the hospital's NPR change a more accurate proxy for new money in the health care system as a whole. *See* Green Mountain Care Board Hospital Budget Policy: Physician Transfer/Acquisitions (Eff. May 2, 2013; Rev. Jan. 8, 2015), available at http://www.gmcboard.vermont.gov/sites/gmcboard/files/Hospital/HospitalBudget_Guidance_Physician%20Transfer_Update.pdf.

care. The rate increase discussed in this decision is the Hospital's average overall rate increase. The actual changes in the rates charged by the Hospital will vary across service lines and goods and services provided by the Hospital.

In our review this year, we identified four such adjustments, reducing the overall system weighted average rate increase from the submitted 4.3% to the approved 4.2%, the lowest aggregate rate increase in Vermont since 2001. We appreciate the hospitals' efforts in achieving this result and encourage them to continue to tightly control these rate increases.

In addition to the issues discussed above, this year's process brought into focus the need to work with the providers, payers, and all interested Vermonters to better understand how each hospital's rates are developed and how they impact commercial health insurance rates. We look forward to working collaboratively to better align our hospital budget and rate review processes and enable the Board to use each process more effectively to advance the goals of Act 48.

We greatly appreciate the impressive work our hospitals are doing in response to community health needs assessments. This work is critical to improving population health and containing costs in the health care system at large, and we encourage the hospitals to keep pushing forward.

We also recognize and appreciate the efforts our hospitals are making towards payment and delivery system reform. Their testimony this year reflected each hospital's understanding of and commitment to the need to move away from a fragmented, fee-for-service based system in favor of an integrated delivery system and value-based provider payment. Their testimony also made clear the difficult challenges and uncertainties they face as a group and as individual institutions, as the State continues moving towards reform goals. Again, we look forward to working together with the hospitals, all providers, payers, and Vermonters on this important work.

Finally, the Board will work with the hospitals and all other interested parties to establish guidance for the hospitals to use in developing their budgets beginning with fiscal year 2017. Our FY14-16 policies provide a solid foundation from which to build and learn. We will begin developing our approach for FY17 and beyond later this fall. As with all our work, this will be a transparent, public process in which we hope a broad cross-section of stakeholders and citizens participate.

With those general principles in mind, the Board's specific Findings and Orders regarding the Hospital's FY16 budget follow. The information collected, reviewed and analyzed by the Board and its staff throughout the review process, including the Hospital's budget submission and narrative, its responses to the Board's questions, and the transcript of its public hearing testimony, supports the Findings and Orders.[4]

[4] These materials, other than transcripts, are available on the Board's website, at : http://gmcboard.vermont.gov/hospitalbudgets. Transcripts are available upon request.

FINDINGS

1. The Hospital submitted its FY16 budget in July 2015, seeking an overall NPR increase of $394,759, 2.2% over the NPR approved in the FY15 budget. The proposed NPR increase included investments in health care reform. The major increases in the expense budget are driven by salaries, fringe benefits and other (non-salary related) operating expenses.

2. The Hospital requested a rate increase of 5.0%.

3. After reviewing the Hospital's submission, the Board posed written questions and the Hospital provided written responses. The Hospital also participated in a public hearing before the Board on August 27, 2015, where it presented information and answered questions concerning its budget.

4. After discussing all of the proposed hospital budgets at a number of public meetings, the Board made its decisions establishing each hospital's FY16 budget during public meetings on September 2, 3 and 9, 2015.

5. The Board finds that the budget included estimated Medicare revenues that are based upon pending rules from CMS. The Board finds that GCH's estimates are reasonable.

6. Next, we find that, consistent with the Board's instructions, the budget did not include any revenue increases from Medicaid rate changes.

7. The Board finds that the 2016 estimated reimbursement expected from commercial insurance and self pays was reasonable.

8. The Board finds that disproportionate share and provider tax amounts are consistent with DVHA estimates.

9. The Board finds that the bad debt and free care budgeted levels reflect recent trends and activity and that the Hospital's assumptions are reasonable for FY16.

10. The Board finds that the GCH's operating surplus is budgeted at -2.7% for 2016 and was budgeted at 0.6% for 2015.

11. The hospital reported termination of its contract with OneCare which was a budgeted expense of $123,000 for 2016. Accordingly, the Board decided to remove that projected expenditure from GCH's budget.

12. The Board established the final NPR budget amount of $18,375,041, a 2.2% NPR increase over GCH's FY15 budget, with a decrease of $123,000 in expenses.

13. The Board commends the Hospital's efforts to reach out to its community to collaborate in addressing its regional health care needs, as part of the Community Health Needs Assessment.

14. The Board also finds that approving the budget will promote the efficient and economic operation of the Hospital, and is consistent with the current Health Resource Allocation Plan.

ORDER

Pursuant to the above findings and the authority granted by 18 V.S.A. Chapter 221, Subchapter 7, the Hospital's budget is approved for FY16, as adjusted herein and subject to the following terms and conditions:

A. The Hospital's overall approved rate is established at 5.0% increase over current approved levels. The Hospital shall not increase the rates charged during FY16 above those approved herein, except after review and approval in accordance with the Board's instructions presented in Exhibit A.

B. The Hospital's FY16 budget is approved as submitted, and as outlined in Table 1.

	Budget 2016 Submitted	Adjustments	Budget 2016 As Approved
Net Patient Care Revenue	$18,375,041	$0	$18,375,041
Other Operating Revenue	$1,062,338		$1,062,338
Total Net Revenue	$19,437,379	$0	$19,437,379
Expenses	$19,969,438	($123,000)	$19,846,438
Operating Surplus	($532,059)	$123,000	($409,059)
Non-Operating Surplus	$564,157		$564,157
Total Surplus	$32,098	$123,000	$155,098

The Hospital shall contact the Board (staff) to adjust expense levels and/or to reconcile any minor discrepancies due to differing calculations or changed assumptions.

C. Beginning on or before November 20, 2015, and every month thereafter, the Hospital shall file with the Board the actual year-to-date FY16 operating results for the prior month. The filing should also include such information as the Board determines necessary to review any investment(s) in health care reform that the Board approved as part of the budget and to assess the return being realized on those investments. The report shall be in a form and manner as prescribed by the Board.

D. The Hospital shall advise the Board of any material changes to the budget or the assumptions reflected in the budget, including:

   a. any substantial changes in Medicaid, Commercial, or Medicare reimbursement;

   b. any substantial additions or reductions in programs or services; or

   c. any other event that could materially change the approved NPR budget.

E. On or before January 31, 2016, the Hospital 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 FY15 actual operating results, in order to determine whether the Hospital budget meets the Board's enforcement policy.

F. The Hospital shall report the annual budget in the manner and form as prescribed by the Board, to provide consistent and standard analysis of the annual budget submission.

G. The Hospital shall file with the Board on or before January 31, 2016:
   a. one copy of its FY15 audited financial report and associated management letter(s).
   b. one copy of its latest Community Health Needs Assessment report, including implementation plans.

H. After notice and an opportunity to be heard, the Board may make such further orders as are necessary to carry out the purposes of this Order, and to carry out the purposes of the Hospital Budget Review law, 18 V.S.A. Chapter 221, Subchapter 7.

I. All materials required above shall be provided in electronic form, unless doing so is not practicable.

J. 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 30, 2015
Montpelier, Vermont

s/ Alfred Gobeille)	
)	
s/ Cornelius Hogan)	GREEN MOUNTAIN
)	CARE BOARD
s/ Jessica Holmes)	OF VERMONT
)	
s/ Betty Rambur)	
)	
s/ Allan Ramsay)	

Filed: September 30, 2015

Attest: s/ Janet Richard
Green Mountain Care Board
Administrative Services Coordinator

NOTICE TO READERS: This document is subject to revision of technical errors. Readers are requested to notify the Board (by e-mail, telephone, or in writing) of any apparent errors, so that any necessary corrections may be made. (E-mail address: Janet.Richard@state.vt.us).

EXHIBIT A

POLICY ON BUDGET CHANGES

A hospital wishing to modify its approved budget before the end of the fiscal year covered by the budget shall:

A. Submit a letter of intent regarding a revised budget along with an explanation as to the purpose of any changes and variances. The submission shall be delivered to the Green Mountain Care Board no less than 30 days prior to the date the hospital wants the budget adjustment or rate change to be effective. As applicable, any request for a modification should comply with the Board's policies on net patient revenue, community needs assessments, physician transfers, and/or enforcement.

B. Obtain approval for the change from its Board of Directors.

C. Submit a modified budget in the form and manner as determined by the Board within a timeframe to be determined by the Board.

D. Submit to the Board a copy of its latest audited financial statement if it has not yet been otherwise filed.

E. The Board will issue a final decision within 21 days after the receipt of the completed, detailed budget forms.

F. The Board may extend the timeframes set forth herein for cause.