

Green Mountain Care Board
89 Main Street
Montpelier, VT 05620

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

Alfred Gobeille, Chair
Con Hogan
Jessica Holmes, PhD
Betty Rambur, PhD, RN
Allan Ramsay, MD
Susan Barrett, JD, Executive Director

September 29, 2016

DELIVERED ELECTRONICALLY

Arthur Mathisen
Copley Hospital
528 Washington Highway
Morrisville, VT 05661

Dear Mr. Mathisen:

Enclosed please find a Budget Order reflecting the Green Mountain Care Board's decision establishing your hospital's budget for fiscal year 2017. The Board and its staff carefully analyzed your proposed budget and the other information you provided during the review process, and the Board took that information and numerous other 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. We look forward to working with you and your staff to refine and improve the process for the next cycle and beyond, much as we did in developing the policies that helped guide our review of the FY17 budgets. We appreciate the responsiveness, diligence and candor you and your staff have shown throughout the process during this budget cycle.

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.

Sincerely,

s/ Alfred Gobeille
Chair, Green Mountain Care Board

cc: Rassoul Rangaviz, CFO
Mike DeITrecco, VAHHS



STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

FY17 HOSPITAL BUDGET ORDER

In re: Copley Hospital) Docket No. 16-003-H
)
Budget for Fiscal Year 2017)
)
)
)
_____)

INTRODUCTION

Through the hospital budget review process, the Green Mountain Care Board continues its work to set limits on the growth of health care spending while improving quality and access to health care. In this budget cycle, the Board has carefully analyzed the data and information submitted by each of the 14 Vermont hospitals, has deliberated at multiple public meetings, and has established each hospital’s Fiscal Year 2017 (FY17) budget. Our observations show that overall, the hospitals worked hard to meet policy guidelines and financial targets adopted by the Board in 2016, including the 3.4% cap on net patient revenue (NPR) growth (inclusive of spending on credible health reform). After adjusting for the acquisition of existing physician practices, the actual system-wide NPR growth is 4.15% over the approved FY16 budgets. This increase was then reduced to 3.9% after the Board adjusted price increases for four of the hospitals subject to review.

This Order outlines our legal framework, provides general observations and conclusions about this year’s hospital budget process, and then presents the specific Findings of Fact and Order that support our decision establishing Copley Hospital’s (COP, or the Hospital) FY17 budget.

LEGAL FRAMEWORK

Among other duties delegated to the Board by the Vermont Legislature, the Board is mandated to “[r]eview and establish hospital budgets.” 18 V.S.A. §§ 9375(b)(7), 9456. Annually, the Board must “establish” each hospital’s budget by September 15 and issue a written decision to each hospital by October 1. 18 V.S.A. § 9456(d)(1). The Board may adjust a budget upon a hospital’s showing of need based upon exceptional or unforeseen circumstances, 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.

The Board’s decision, as reflected in this Order, is based on its 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.

As the result of public discussions beginning in late 2012, the Board in February 2013 adopted a policy governing the hospital budget review process for fiscal years 2014-16, followed in May 2013 by separate written policies on enforcement, physician transfers, and community needs assessments.¹ These policies have been updated by the Board for FY17. The policies establish key parameters for how the hospitals should construct their FY17 budgets: First, the Board set an overall system NPR growth cap of 3.0% over the hospitals’ approved FY16 budget bases. A key indicator used to assess changes in hospital budgets because it closely tracks hospital expenditures, NPR 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. In its FY17 Hospital Budget Submission Reporting Requirements, issued on March 16, 2016, the Board 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.”

Second, the Board established an additional NPR allowance for FY17 of up to 0.4% 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

FY17 REVIEW PROCESS

The Board and its staff carefully reviewed and analyzed all FY17 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, comments from the Health Care Advocate (HCA), and all public comments submitted to the Board. Where appropriate, the Board looked at how a hospital’s key indicators compare with its Vermont, regional, and national peers. In all cases, the Board considered each

¹ The policy documents are available as part of the FY17 Hospital Budget Submission Reporting Requirements, at <http://gmcboard.vermont.gov/sites/gmcb/files/files/hospital-budget/GMCB-Hosp%20Bud-Submission%20Rptng-Req-FY17-UPDATED-phys-language.pdf>.

hospital's unique circumstances, including its health care reform efforts and its work to address issues identified in its community health needs assessment (CHNA).²

The Board chose NPR as its key budget measure and target because it is a good proxy for the amount of “new money” each hospital intends to spend in a given year. As submitted, the hospitals' FY17 budgets requested a system-wide NPR increase—including amounts already in the system for physician transfers—of 5.0%, or approximately \$114.5 million over their FY16 budgets.

Although NPR is a useful measure of the extent to which hospital budgets impact overall health care costs, NPR growth, viewed in isolation, may not always accurately reflect the extent that new money is being added to the health care system. For example, if a hospital divests itself of a particular service line that will continue to exist and serve the community through a different entity, the hospital's budget indicates a decrease in NPR, even though the associated revenues are still a part of Vermont's health care system. Conversely, if a previously non-affiliated entity becomes part of a hospital, the hospital's NPR increases, even though there is no actual growth in the health care system at large. Both of these scenarios require the Board to make adjustments to the hospital's budget—in the first case, an addition to NPR, and in the second a subtraction—so that the resulting changes in NPR more accurately reflects the increased revenues in the health care system as a whole.³ Note that in making these adjustments, the Board is not altering the hospitals' budgets; rather, it is taking into account revenues already in the health care system which have moved from one entity to another. Making these adjustments allows the Board to better understand, and more accurately report to the public, the extent to which new money is being added to the health care system. And as we review each hospital's budget each year, we examine the extent to which this type of activity may prevent a hospital from meeting our NPR target.

In light of our discussion above, we find that the actual system-wide hospital NPR growth rate over FY16 is 3.9%. This increase, while higher than the 3.4% target set by the Board, includes the costs of new and expensive oncology drugs, Vermonters returning to be served in Vermont hospitals, increased medical utilization, expansion of emergency room services to meet demands for psychiatric care, and the expansion of needed primary care services.

In addition, the Board reviewed and established each hospital's proposed rate increase, which is the overall average amount by which a hospital must increase its prices to attain its NPR increase. The amounts paid for hospital services by each payer are not the same; commercial payers separately negotiate their contracts with the hospitals, resulting in variations in the actual prices paid for the same services among commercial payers. Medicaid and Medicare prices are

² Under the Affordable Care Act, tax-exempt hospitals are required to conduct a Community Health Needs Assessment (CHNA) every three years with input from public health experts and community members, and develop and adopt an implementation strategy.

³ See Green Mountain Care Board Hospital Budget Policy: Physician Transfer/Acquisitions (Eff. May 2, 2013; Rev. Jan. 8, 2015), available at <http://gmcboard.vermont.gov/sites/gmcb/files/files/hospital-budget/GMCB-Hosp%20Bud-Submission%20Rptng-Req-FY17-UPDATED-phys-language.pdf>

not typically negotiable and reimbursement is instead established through each payer's unique fee schedules and update factors. Rates can vary based on changes in the distribution of Medicaid's disproportionate share (DSH) hospital payments and changes in bad debt and free care. We again emphasize that the rate increase discussed in this decision is the *average* overall rate increase, while 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 adjustments that reduced the overall system weighted average rate increase from the submitted 2.2% to the approved 1.8%, the lowest annual aggregate rate increase on record in Vermont.

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, and are affected by, 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 further take note of the hospitals' continued efforts to position their institutions, individual providers, and served populations for forthcoming payment and delivery system reforms. 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 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 with the hospitals, providers, payers, and Vermonters on this important work.

Finally, once we complete our FY17 budget orders, the Board will begin to establish guidance for the hospitals to use in developing their budgets going forward. Our policies for FYs 2014 through 2017 provide a solid foundation from which to build and learn. Working with the hospitals, we will continue to refine our approach to future budget reviews through a transparent, public process in which we expect a broad cross-section of stakeholders and citizens will participate.

With those general principles in mind, the Board's specific Findings and Order, supported by information provided by the Hospital and analyzed by the Board and its staff follow.⁴

FINDINGS

1. The Hospital submitted its FY17 budget on July 1, 2016, seeking an overall NPR increase of \$4,522,175, 7.4% more than the NPR approved by the Board in the FY16 budget. The major increases in the Hospital's expenses are related to recruitment and retention of skilled staff and MDs, and the increased costs of drugs and supplies.
2. The Hospital requests a rate increase of 0.0%.

⁴ The Hospital's 2017 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.

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 18, 2016, where it presented information and answered questions from the Board and the HCA concerning its budget.
4. After discussing all of the proposed hospital budgets at a number of public meetings, the Board established each hospital's FY17 budget in September 2016.
5. COP's FY17 budget includes estimated Medicare revenues that are based upon pending rules from the Centers for Medicare & Medicaid Services (CMS).
6. The Hospital's FY17 budget includes reasonable Medicaid NPR estimates.
7. COP's estimated reimbursement from commercial and self pays is reasonable.
8. COP's budgeted FY17 disproportionate share (DSH) and provider tax amounts are consistent with estimates from the Department of Vermont Health Access (DVHA).
9. COP's budgeted FY17 bad debt and free care levels reflect recent trends and activity and are based on reasonable assumptions.
10. COP's FY17 budget does not include any physician transfers or acquisitions.
11. COP's FY17 budget identifies \$243,951 for health care reform investments.
12. COP has requested a rebase of its FY17 budget, noting significant change in utilization since the approval of their CON.
13. COP has budgeted an operating surplus of 0.4% for FY17.
14. COP has been actively reaching out to its community to collaborate in addressing its regional health care needs, as identified in its Community Health Needs Assessment (CHNA).
15. Approving COP's budget at this time will promote the efficient and economic operation of the Hospital, and is consistent with the current Health Resource Allocation Plan (HRAP).
16. The Hospital's narrative, testimony, and other filed budget information meet the Board's requirements for submission of the Hospital's FY17 budget.
17. The Hospital is currently undergoing a study (Quorum Study) focused on issues related to quality and efficiency, and intends to implement an improvement plan as a result of the study. In addition, the Hospital is under new leadership. The Board expects that Copley will make changes as a result of these two factors, which will not be completed prior to our review and consideration of its FY17 budget.

Based on the above, the Board accepts Copley’s budget as submitted and establishes a final FY17 NPR budget of \$65,509,894, a 7.4% NPR increase over budget FY16. As reflected in our findings, however, and as ordered below, Copley is required to resubmit its FY17 budget following completion of the Quorum Study and development of an improvement plan based on the study’s recommendations.

ORDER

Based on our findings above and the authority granted by 18 V.S.A. Chapter 221, Subchapter 7, the Hospital’s budget is approved for FY17, as adjusted herein and subject to the following terms and conditions:

- A. The Hospital’s overall approved rate is established at 0.0% over current approved levels.
- B. The Hospital shall not increase the rates charged during FY17 above 0.0%, except after the Board’s review and approval in accordance with the Board’s instructions in the *Hospital Budget Reporting Requirements* available at:
<http://gmcboard.vermont.gov/sites/gmcb/files/files/hospital-budget/GMCB-Hosp%20Bud-Submission%20Rptng-Req-FY17-UPDATED-phys-language.pdf>
- C. The Hospital’s FY17 budget is approved as submitted, and as outlined in Table 1.

Table 1: FY 2017 Budget

	Submitted	Adjustments	Approved
Net Patient Care Revenue	\$65,509,894	\$0	\$65,509,894
Other Operating Revenue	\$1,478,568		\$1,478,568
Total Net Revenue	\$66,988,462	\$0	\$66,988,462
Expenses	\$66,743,216		\$66,743,216
Operating Surplus	\$245,246	\$0	\$245,246
Non-Operating Surplus	\$2,603,000		\$2,603,000
Total Surplus	\$2,848,246	\$0	\$2,848,246

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

- D. On or before December 5, 2016, Copley shall revise and resubmit to the Board its FY17 budget, in addition to budget plans for FY18 and FY19. Copley shall explain and reconcile variances between its FY17 budget and projected costs relative to Certificate of Need docket no. GMCB 015-13con (surgical suite construction, ambulatory care unit renovations. The filing shall be in a form and manner as prescribed by the Board.
- E. Beginning on or before November 20, 2016, and every month thereafter, the Hospital shall file with the Board the actual year-to-date FY17 operating results for the prior month. In addition, the filing shall include information showing the rate of return realized

on each investment(s) in health care reform that the Board approved as part of the Hospital's FY17 budget. The report shall be in a form and manner as prescribed by the Board

- F. The Hospital shall advise the Board of any material changes to the FY17 revenues and expenses or 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; or
 - c. any other event that could materially change the approved NPR budget.
- G. On or before January 31, 2017, 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 FY16 actual operating results, in order to determine whether the Hospital budget meets the Board's budget performance review policy.
- H. 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.
- I. The Hospital shall file with the Board on or before January 31, 2017, one copy of its FY16 audited financial report and associated management letter(s).
- J. The hospital shall timely file all forms as required for physician transfers. *See Physician Transfer Policy* found in the *FY 2017 Hospital Budget Reporting Requirements*, available at <http://gmcboard.vermont.gov/sites/gmcb/files/files/hospital-budget/GMCB-Hosp%20Bud-Submission%20Rptng-Req-FY17-UPDATED-phys-language.pdf>
- K. 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.
- L. All materials required above shall be provided in electronic form, unless doing so is not practicable.
- M. 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 29, 2016
Montpelier, Vermont

s/ Alfred Gobeille)
)
s/ Cornelius Hogan)
)
s/ Jessica Holmes)
)
s/ Betty Rambur)
)
s/ Allan Ramsay)

GREEN MOUNTAIN
CARE BOARD
OF VERMONT

Filed: September 29, 2016

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@vermont.gov).