STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

FY18 HOSPITAL BUDGET ORDER

In re: Grace Cottage Hospital Fiscal Year 2018	)	Docket No. 17-006-H

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 analyzed the data and information submitted by each of the 14 Vermont hospitals, deliberated at multiple public meetings, and has established each hospital's Fiscal Year 2018 (FY18) budget. Our observation is that overall, the hospitals worked hard to meet policy guidelines and financial targets adopted by the Board in 2017, including a net patient revenue (NPR) growth cap of 3.4%, inclusive of up to 0.4% in new spending on credible health care reform. For 2018, the 14 hospitals submitted budgets with an NPR request of 3.6% over approved FY17 budgets. After adjusting for the acquisition and/or transfer of existing physician practices and for the change in disproportionate share payments, the hospitals' budget submissions reflected a system-wide NPR growth of 3.46%. The Board further reduced the increase to 3.01% after it ordered four hospitals to lower their rate increases and accepted one hospital's request to rebase its FY17 budget.

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 Grace Cottage Hospital's (Grace, or the Hospital) FY18 budget.[1]

LEGAL FRAMEWORK

Hospital budget review is one of the Board's core regulatory responsibilities. *See* 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). 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. The Board's decision establishing a hospital budget 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

[1] The Hospital's 2018 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.

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 first adopted guidelines that govern the hospital budget review process in February 2013 for fiscal years 2014-16, followed in May 2013 by separate written policies on net patient revenue, enforcement, physician transfers, and community needs assessments.[2] These guidelines, which establish key parameters for how the hospitals should construct their budgets, were updated by the Board for FY17 and most recently in March 2017 for FY18. For FY18, the Board set an overall system NPR growth cap of 3.0% over the hospitals' approved FY17 budget bases. 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. The Board next established an additional NPR allowance for FY18 of up to 0.4% for new health care reform activities, investments and initiatives related to four specific areas:

a. Support for Accountable Care Organization (ACO) infrastructure or ACO programs;
b. Support of community infrastructure related to ACO programs;
c. Building capacity for, or implementation of, population health improvement activities identified in the Community Health Needs Assessment (CHNA), [3] with a preference for those activities connected with the population health measures outlined in the All-payer Model Agreement; and
d. Support for programs designed to achieve the population health measures outlined in the All-payer Model Agreement.

Hospitals bear the burden to convince the Board that expenditures listed as health reform are truly new investments in a reformed delivery system.

FY18 REVIEW PROCESS

The Board and its staff have reviewed and analyzed all FY18 budget information submitted by the hospitals which includes: utilization information; prior budget performance; financial and other key performance indicators and how they compare with state, regional, and national peers; staffing needs; capital expenditure needs; the amount of in- and out-of-state patient migration, and comments from the Health Care Advocate (HCA) and from members of the public. In all cases, the Board considered each hospital's unique circumstances, including its health care reform efforts and its work to address issues identified in its CHNA.

[2] The documents are available as part of the FY18 Hospital Budget Submission Reporting Requirements at http://gmcboard.vermont.gov/sites/gmcb/files/files/hospital-budget/GMCB%20FY%202018%20Hospital%20Budget%20Reporting%20Req%20Final.pdf.

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

As submitted for FY18, the hospitals request a system-wide NPR increase of 3.6%, or approximately $86.9 million over their FY17 budgets. Although the Board has set an NPR target for the hospitals to meet—essentially using the measure as a proxy for "new money" each hospital intends to spend in a given year—NPR, viewed in isolation, is not a precise measure of the increase of dollars to the health care system. For example, if a hospital divests itself of a 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. The Board will therefore adjust a divesting or acquiring hospital's budget—in the first instance, by adding to its NPR, and in the second, by subtracting from it—so that the hospital's resulting change in NPR more accurately reflects the actual revenue increase to the health care system as a whole.[4] 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.[5]

Based on the discussion above, we conclude that actual system-wide hospital NPR growth rate over FY17 is 3.08% prior to adjusting for physician acquisitions and/or transfers; once adjusted, the rate is 3.01%.

In addition, the Board has reviewed each hospital's proposed rate increase, which is the average overall amount by which a hospital increases its prices as part of its NPR increase.[6] 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 unique fee schedule and update factors. Rates can also vary based on changes in bad debt and free care, and in the distribution of Medicaid's disproportionate share (DSH) hospital payments. In 2017, the Vermont legislature adjusted the DSH calculation in the "Big Bill" and because of timing, the adjusted DSH amounts were not accurately reflected in some hospitals' budget submissions. *See* 2017, No. 85 § E.306.2(b)(1). The Board has therefore adjusted those hospitals' budgets to include the appropriate DSH payment. Taking into consideration all adjustments, we reduce the overall system weighted average rate increase from the submitted 2.4% to 2.1%.

Finally, as we move into the first year of the All-payer ACO Model Agreement, the Board, through a transparent public process, will continue to refine how it conducts its budget review and to better understand and align its regulatory work, consistent with the overarching reform goals expressed in Act 48 of 2011. We encourage the hospitals to continue their efforts to

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[4] *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%20FY%202018%20Hospital%20Budget%20Reporting%20Req%20Final.pdf

[5] In addition, the Board reviewed and accepted one hospital's request to rebase its FY17 budget, affecting the overall NPR growth calculation.

[6] Actual changes in the rates charged by the Hospital will vary across service lines and goods and services provided by the Hospital.

favorably position their institutions, individual providers, and 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 and Order:

FINDINGS

1. The Hospital submitted its FY18 budget on July 3, 2017 seeking a 2.9% decrease in NPR of ($556,429). The Hospital requests a rate increase of 5.0%.

2. The Hospital's budget includes total expenses in the amount of $20,486,232, a decrease of 0.5% from FY17.

3. After reviewing the Hospital's submission, the Board posed written questions and the Hospital provided written responses. The Hospital participated in a public hearing before the Board on August 17, 2017, where it presented information and answered questions from the Board and the HCA concerning its budget, and the Board discussed all 14 hospital budgets at subsequent public meetings. On September 7, 2017, the Board established the Hospital's FY18 hospital budget.

4. Medicare revenues included in the Hospital's budget are reasonable, and are based upon pending rules from the Centers for Medicare & Medicaid (CMS).

5. The Hospital's FY18 budget includes reasonable Medicaid NPR estimates.

6. The Hospital's estimated reimbursements from commercial insurers and from self pay are reasonable.

7. The Hospital's budget does not include any DSH payments.

8. The Hospital's budgeted FY18 bad debt and free care levels reflect recent trends and activity and are based on reasonable assumptions.

9. The Hospital's FY18 budget includes no physician acquisitions and/or transfers.

10. The Hospital's FY18 budget identifies no new investments in health care reform.

11. The Hospital has not requested a rebase of its FY17 budget.

12. For FY18, the Hospital has budgeted a negative operating margin of (3.0)%.

13. The Hospital 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).

14. Approving the Hospital's budget as submitted will promote the efficient and economic operation of the Hospital, and is consistent with the current Health Resource Allocation Plan (HRAP).

15. The Hospital's narrative, testimony, and other filed budget information comply with the Board's FY18 hospital budget requirements.

CONCLUSION

We conclude that the Hospital's budget as submitted is reasonable and consistent with the Board's guidelines, policies and prior orders. The Board therefore establishes Grace Cottage Hospital's FY18 Net Patient Revenue at $18,649,074, a decrease of 2.9% from its FY17 budget, and approves a 5.0% overall increase in rate.

ORDER

Based on our findings and authority granted by Chapter 221, Subchapter 7 of Title 18, the Hospital's budget is approved for FY18 subject to the following terms and conditions:

A. The Hospital's overall rate is established at 5.0% over current approved levels.

B. The Hospital shall not increase the rates charged during FY18 above 5.0%, 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%20FY%202018%20Hospital%20Budget%20Reporting%20Req%20Final.pdf

C. The Hospital's FY18 NPR budget is approved as submitted at -2.9%, as outlined in Table 1.

Table 1: FY2018 Budget

	Submitted	Adjustments	Approved	% Chg
Net Patient Care Revenue	$18,649,074	$0	$18,649,074	-2.90%

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. Beginning on or before November 20, 2017 and every month thereafter, the Hospital shall file with the Board the actual year-to-date FY18 operating results for the prior month. The filing shall also include information about its contract(s) with Accountable Care Organizations (ACOs) and financial information associated with them. The report shall be in a form and manner as prescribed by the Board.

E. The Hospital shall advise the Board of any material changes to the FY18 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;

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

d. any material payer changes to the budgeted ACO risk.

F. On or before January 31, 2018, 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 FY17 actual operating results in order to determine whether the Hospital budget meets the Board's budget performance enforcement policy.

G. On or before January 31, 2018, the Hospital shall file with the Board a status report on the projects included in its 2015 energy efficiency plan. The report must explain: 1) what projects were completed and the actual energy and cost savings realized; 2) what projects have not been completed; and 3) for those projects that have not been completed, the reasons why, and expected timeline for their completion.

H. On or before January 31, 2018, the Hospital shall file with the Board its Financial Assistance Policy, which shall comply with IRS regulation 26 CFR §1.501(r)-4).

I. 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.

J. On or before January 31, 2018, the Hospital shall file with the Board one copy of its FY17 audited financial report and associated management letter(s).

K. The Hospital shall timely file all forms as required for physician acquisitions and/or transfers. *See* http://gmcboard.vermont.gov/sites/gmcb/files/files/hospital-budget/GMCB%20FY%202018%20Hospital%20Budget%20Reporting%20Req%20Final.pdf

L. 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 laws, 18 V.S.A. Chapter 221, Subchapter 7.

M. All materials required above shall be provided electronically, unless doing so is not practicable.

N. 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, 2017
Montpelier, Vermont

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

Filed: September 28, 2017

Attest: s/ Erin Collier
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. (Email address: Janeen.Morrison@vermont.gov).