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September 11, 2017

Kevin Mullin
Chair, Green Mountain Care Board
3rd Floor City Center
89 Main Street
Montpelier, VT 05620-3601

Re: HCA Comments on FY18 Hospital Budget Review

Dear Chair and Members of the Green Mountain Care Board,

The Office of the Health Care Advocate (HCA) respectfully submits the following comments for your consideration prior to the Green Mountain Care Board (the Board)'s fiscal year 2018 hospital budget orders. We appreciate the challenge that the Board faces in regulating hospital budgets during this time of transition and overlap between fee-for-service and risk-based models, as well as increased consolidation throughout the health care system in Vermont and neighboring states.

Risk-Based Payment Models: As we noted at the Board's September 7 meeting, the HCA does not support the inclusion of reserves for risk-based models in hospitals' rate increase requests, as proposed by Brattleboro Memorial Hospital. This would defer financial risk from the hospital to the consumer and diminish or negate the cost-saving incentive of the risk-based model. These payment models are designed to incentivize efficiency and cost-effective care. If providers are assured that consumers will cover any losses, the risk portion of the payment methodology becomes meaningless. Additionally, consumers already pay for insurers' reserves and should not be required to pay, in advance or otherwise, for hospitals' potential losses if they are unsuccessful under risk-based models. We appreciate hospitals' desire to mitigate financial risk, however, this is not an appropriate mechanism for doing so. We ask the Board to thoroughly evaluate through each of its regulatory processes how risk is being managed at the insurer-, ACO-, and provider- level to ensure that reserves are not duplicated and that consumers are not negatively affected by these models.

Executive Pay: The HCA encourages the Board to scrutinize hospitals' executive and senior management pay and to ensure that executive salaries are fair, reasonable, and appropriate for Vermont's non-profit health care system. In addition to submitting their 990's, we ask the Board to require the hospitals to disaggregate senior leadership pay in future budget submissions so that the Board, the HCA, and the public can monitor the impacts of these expenditures on Vermont's health care system. Hospitals should design their compensation packages to prioritize appropriate patient care staffing and the highest quality of patient care. We ask the Board to require reporting of executive bonuses in future hospital budget submissions and to consider mechanisms for limiting incentives that may adversely affect the health care system (e.g., bonuses for increasing revenue without regard for the need or appropriateness of the services generating the revenue).

Financial Assistance Policies: In light of the HCA's discovery that Northwestern Medical Center appears to be out of compliance with IRS regulation 26 CFR 1.501(r)-4, which governs nonprofit hospital Financial Assistance Policies (FAPs), we ask the Board to require in its budget orders that each hospital review its FAP and ensure that the hospital is fully in compliance with 26 CFR 1.501(r)-4 prior to the start of FY18. Compliance with this regulation is required to maintain 501(c)-3 nonprofit status. Community Catalyst has created a [checklist](#) that could simplify this process for hospitals. The HCA would also be happy to work with any hospital to improve its FAP materials.

Energy Efficiency: For Vermont to reach its goals of lowering health care costs statewide, all Vermont hospitals should be maximizing financial savings through energy efficiency measures. The Board should require the hospitals to report on the status of the projects included in their 2015 Energy Efficiency Plans. The report should include information on 1) what was completed and the actual energy and cost savings realized; 2) what parts of the plans have not been completed and why; and 3) for those projects that have not been completed, what the expected timeline for completing them is. We also urge the Board to require each hospital to complete and submit an updated energy efficiency plan. These plans should each be accompanied by an energy audit signed by an engineer with expertise in energy efficiency, and should include current costs and potential savings in terms of 3-4 year averages and the expected payback period for each project.

Volume-Based Incentives: We continue to be concerned about volume-based incentives for providers, particularly for procedures. Provider incentives must shift to reflect shared decision-making, patient experience, and quality of care rather than the number of procedures performed. We encourage hospitals to research provider payment best practices in value-based payment models and to implement models that incentivize shared decision making and high quality patient-centered care. We ask the Board to ensure that measurements of these areas are included at every possible level and that any provider payment incentives reflect these priorities.

Thank you for considering our comments. Please feel free to contact Julia Shaw with any questions.

Sincerely,

\s\ Julia Shaw

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