To: The Honorable Kevin Mullin, Chair, Green Mountain Care Board
From: John Brumsted, CEO, The University of Vermont Health Network
Todd Keating, CFO, The University of Vermont Health Network
Date: January 31, 2018
Subject: FY 2017 Actual-to-Budget Narrative

Executive Summary

The University of Vermont Health Network was called upon to care for many more patients than anticipated in FY 2017. While that unexpected increase in patient volume affected Network hospitals to different degrees, it caused all of the Network's Vermont affiliates to receive more revenue for patient care services than they had budgeted. The Network's Vermont hospitals also incurred significant additional expenses to treat those patients, and they collectively had a net margin that was 0.9% above budget.

In order to ensure that the FY 2017 unbudgeted patient revenue is appropriately returned to Vermont's commercially insured patients, the UVM Medical Center proposes that the GMCB mandate a 0.0% change in the Medical Center's Vermont commercial rates in FY 2019, and both Central Vermont Medical Center and Porter Hospital propose commercial rate increases no greater than 2.8%, the average rate of medical inflation. The Network and its Vermont hospitals strongly urge the GMCB to ensure that the cost savings achieved through these historically low rate changes are passed directly through to consumers in the form of commercial insurance premium adjustments.

For the remainder of FY 2018, the Network hospitals will continue to shoulder significant unbudgeted revenue cuts and patient-related expenditures while operating within the small commercial rate increases previously allowed by the GMCB, providing an immediate benefit to Vermont's commercially insured patients.

Patient Volume Exceeded Projections

Patient volume exceeded projections at all of the Network's Vermont hospitals, but in varying ways and to significantly different degrees. At the UVM Medical Center, inpatient admissions were 4% ahead of projections, and total patient days were 8% ahead of projections. At Central Vermont Medical Center, inpatient volumes were on budget, but Central Vermont saw net patient revenue increases attributable to higher demand for outpatient and infusion services. At Porter Hospital, inpatient volume and patient days were below budget, but Porter experienced net patient revenue gain from the enhanced availability of more efficient urgent care and infusion services, along with increased demand for women's health and cardiology services.

Because Vermont remains in the early stages of its transition from the current fee-for-service payment system to a value-based payment system, these increases in patient volume necessarily resulted in positive net patient revenue variances at all of the Network's Vermont affiliates. The UVM Medical Center experienced a 3.3% ($38.3M) positive variance in net patient revenue; Central Vermont Medical Center experienced a 1.8% ($3.4M) positive variance; and Porter Hospital experienced a 2.8% ($2.1M) positive variance. Together, the Network's Vermont affiliates experienced a 3.0% ($43.8M) positive variance in net patient revenue in FY 2017.

It is important to note, however, that the Network's excess patient revenue is substantially the result of increased Medicare and out-of-state Medicaid patient volume, rather than an increased volume of commercially insured Vermont patients. The UVM Medical Center, for instance, saw approximately $26M more in Medicare revenue, and $8M more in out-of-state Medicaid revenue, than budgeted in FY 2017. In contrast, it received $17.2M more than budgeted from Vermont's commercial insurers, and $2.1M less than it budgeted from Vermont Medicaid. As a result, far less than half of the Network's unbudgeted patient revenue is linked to Vermont commercial rates.

Expenses Also Exceeded Budget Due Largely To Increased Patient Volume

Due in large part to the increased staffing necessary to treat a larger volume of patients, the Vermont affiliates also saw expenses that were higher than budgeted. Expenses exceeded budget by 2.3% ($28.2M) at the UVM Medical Center, 5.3% ($10.5M) at Central Vermont Medical Center, and 2.0% ($1.5M) at Porter Hospital. Together, the Network's Vermont affiliates' expenses were 2.7% ($40.3M) higher than budgeted in FY 2017. Those increased expenses were partially offset by hard-won operational efficiencies — supply chain savings, non-clinical FTE reductions, lower health plan costs, and lower interest costs — as well as positive variances in non-patient revenues at all three hospitals: Non-patient revenues were 11.4% above budget at the UVM Medical Center; 13.7% at Central Vermont Medical Center; and 26% at Porter Hospital. As a result, the UVM Medical Center's net income from operations was 1.4% ($20.6M) above budget; Porter Hospital's was 1.9% ($1.8M) above budget; and Central Vermont Medical Center's net income from operations was 2.7% ($5.5M) ***below*** budget. When considered together, the Network's Vermont affiliates had net income that was 0.9% ($16.9M) above budget.

The Network Hospitals Face Significant Unbudgeted Revenue Cuts and Mental Health Treatment-Related Expenses in FY 2018

As we look ahead to the remainder of the current fiscal year, it is already certain that the Network will face significant revenue cuts that were not included in its hospitals' approved FY 2018 budgets. For instance, as a result of governmental decisions that post-date our FY 2018 budget submissions, the UVM Medical Center alone expects reductions in payments totaling approximately $11.4M, plus higher projected bad debt and charity care of up to an additional $10.1M.

Description of Anticipated Unbudgeted Revenue Change	FY 18 Impact (in millions)
Medicare 340B Part B Drug Reimbursement Reduction	$ (5.3)
Medicaid DSH Reduction	$ (1.3)
Medicare IPPS Reduction	$ (2.1)
Medicaid OPPS Reduction	$ (2.7)
Higher Bad Debt (projected based on actual Q1 FY 18)	$ (2.3)
Higher Charity Care (projected based on actual Q1 FY 18)	$ (7.8)
Total Impact	$ (21.5)

The sum of these unforeseen revenue cuts in FY 2018 will likely eclipse the entire FY 2017 unbudgeted patient revenue attributable to commercially insured Vermont patients.

At the same time the Network hospitals are experiencing these unbudgeted revenue cuts, they will bear significant unbudgeted expenses in FY 2018. Like all Vermont hospitals, the Network affiliates have borne the financial brunt of the current mental health treatment crisis, which has required substantial additional investments in both infrastructure and staffing in emergency departments, where acutely mentally ill patients often wait for days or weeks for more appropriate treatment settings to become available. Central Vermont Medical Center has already reconfigured its emergency department to better serve this patient population, and the UVM Medical Center will soon be required to do the same in order to address quality and safety issues affecting our mental health patients, our patients' families, and our staff. All three Network hospitals specially employ dozens of attendants to provide 1:1 supervision of mental health and other patients in their emergency departments. The UVM Medical Center alone has in recent months employed 120 observer FTEs at an average annual cost of $5.4M. Because of a continued lack of geriatric beds to manage the mentally ill, we must also keep patients in the hospital beyond their expected length of stay, even as we continue to develop a more effective post-acute strategy through partnerships with the VNA and others. To the extent new mental health inpatient bed capacity is needed, the State has made clear that it will look to the Designated Hospitals, which include the UVM Medical Center and Central Vermont Medical Center, to create and operate those beds. In addition, at the UVM Medical Center, both the Miller Building and Epic implementation will begin to impact hospital expenses, and the Medical Center has pledged that it will not seek to raise its commercial rates to account for those additional demands.

The Network's Vermont hospitals will absorb all of these unbudgeted losses and additional expenses within the historically low commercial rate increases approved by the GMCB last year — 0.72% at the UVM Medical Center and Central Vermont Medical Center, and 3.0% at Porter Hospital — effectively returning FY 2017 patient revenue to commercially insured patients in FY 2018.

Commercially Insured Patients Should Benefit Further Through FY 2019 Vermont Commercial Rates

The Network is committed to keeping its Vermont commercial rates as low as possible as it seeks to achieve the Triple Aim of improving the health of the populations its serves, enhancing patients' experiences and outcomes, and reducing the per capita cost of care. Each of the Network's Vermont hospitals faces unique challenges in striking that balance, and our proposals reflect those differences among our affiliates.

At the UVM Medical Center, patient volumes have run ahead of projections for the past three years. Under the current fee-for-service model, the Medical Center's net patient revenues and operating margins have therefore continued to exceed its budget, despite low and steadily decreasing commercial rate increases. In order to best ensure that Vermont commercial ratepayers gain the benefit of the FY 2017 unbudgeted patient revenue, the UVM Medical Center proposes that the GMCB impose a 0.0% change in its Vermont commercial rates for FY 2019 through the annual budgeting process. By keeping Vermont commercial rates flat, the Medical Center believes it can meaningfully bend the overall cost curve.

Central Vermont Medical Center, too, has seen increased patient volumes in recent years, but it also continues to post a significant operational loss. The new leadership team at Central Vermont has already taken steps to improve efficiency while maintaining excellent patient care, but that process is not yet complete. As a result, Central Vermont Medical Center proposes that the GMCB cap its FY 2019 Vermont commercial rate growth at 2.8%, the rate of medical inflation.[1]

Porter Hospital, in turn, consistently posted ***negative*** net patient revenue variances every year from 2012-2016, making FY 2017 an outlier. Even then, Porter's FY 2017 budget was only .7% higher than its FY 2016 budget, placing its FY 2016 budget-to-FY 2017 actual growth at 3.5%. Like all hospitals, Porter will continue to face inflationary pressures beyond its control in FY 2019, but it is committed to holding any Vermont commercial rate increase to 2.8%, the rate of medical inflation.

[1] *See* https://ycharts.com/indicators/us_health_care_inflation_rate. The average rate of medical inflation over the past 2, 3, 4, and 5 year periods has ranged from 2.68% to 2.93%, with a mean of 2.82%.

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Of course, the Network's commitment to keeping its Vermont commercial rates as low as possible will only benefit consumers if those savings are passed through to commercially insured patients in the form of premium savings. The Network strongly encourages the GMCB to make absolutely certain that Vermont's commercially insured patients gain the full benefit of the Network's historically low proposed rate changes.