



VERMONT ASSOCIATION OF
HOSPITALS AND HEALTH SYSTEMS

February 26, 2018

Kevin Mullin, Chairman
Green Mountain Care Board
144 State Street
Montpelier, VT 05620

Dear Chair Mullin:

In our continued pursuit of greater access, affordability and quality in health care, I am writing to express serious concerns about the proposal for a 2.8% increase in net patient service revenue (NPSR) for Vermont's hospitals in fiscal years 2019 and 2020.

As you are aware, our state's unparalleled regulatory apparatus has produced excellent results for Vermonters: 10 years ago, NPSR was growing at 9-10% annually. From 2017 to 2018, it grew by only 2.8%, down from 4.4% from the year-ago period. We are making great strides.

Meanwhile, hospitals are investing in health reform by taking on significant new risk. They are investing in mental health and working with partners on substantive improvements to the system. They are committing time and funding to primary prevention, Rise VT and accountable health communities. Put simply: hospitals are stepping up, leading the way and being transparent and accountable as they do so.

Unfortunately, the GMCB's recent proposal for a 2.8% increase next year and in 2020 would more likely move us backward than forward and is problematic in several ways:

- **Does not account for spending trends and medical inflation.** According to [new estimates](#) from the Centers for Medicare and Medicaid Services, health spending in 2018 will increase by 5.3%, and by 5.5% between 2019 and 2026. "Over the period, projected increases in the use and intensity of care contribute to rising growth in Medicare per-enrollee-spending." These trend lines significantly imperil hospitals' ability to manage to a 2.8% increase. We strongly believe that the basis of growth should not be limited to general inflation, but take into account items that are growing faster than inflation. This includes pharmaceutical expenses that grow as much as [7.61% per year](#), as well as wage, workforce and medical supply costs.
- **Conflicts with the All Payer Model (APM).** The APM agreement calls for an annual growth rate of 3.5% per-capita health spending, an ambitious target given the projections described above. In addition, we believe revenue paid to hospitals for population health activity should be accounted for outside the NPSR growth percentage. Similarly, the Board should consider ways to manage unanticipated utilization increases that put hospitals over the NPSR target.

- Hurts financial stability of hospitals.** Setting the NPSR rate too low jeopardizes the long-term financial stability of all Vermont's hospitals and creates even greater challenges for our most vulnerable critical access hospitals who have slim or negative margins. In FY 2017, eight of 14 hospitals have negative operating margins. Without the ability to grow in accordance with demand and the health care economy, our state's vital small hospitals will not have the revenue needed to support critical medical and community services.

FY 2017 - Number of Hospitals Meeting Criteria for S&P A- Ratings				
Metric	Rating	# of Hospitals Meeting Metric	# of Hospitals Below Metric	# of Hospitals Negative Margin
Operating Margin %	2.3%	4 of 14	10 of 14	8 of 14
Total Margin %	2.9%	7 of 14	7 of 14	4 of 14
Days Cash	148	6 of 14	8 of 14	N/A
Average Age Plant (yrs)	11.1	4 of 14	10 of 14	N/A

- Puts Vermont at a competitive disadvantage.** We will export care to neighboring states if we allow a low NPSR growth rate to shutter services that hospitals elsewhere may then provide instead. In addition, we cannot recruit and retain the clinicians we need to serve our patient populations if we cannot pay them market rates.

We appreciate the partnership—and even the tension—between hospitals and the GMCB. It has produced results of which we can all be proud and a solid basis for further bending the cost curve.

It would be damaging at this point to want so much progress so fast that we lose sight of the good work we've done and the continuing potential for further improvement. Responsible regulation can be effective; overreach, by the same token, can be hugely damaging and counter-productive.

Thank you for listening—and for your consideration of our perspective on these important issues.

Sincerely,



Jeff Tieman
 President and CEO
 Vermont Association of Hospitals and Health Systems