

THE  
**University of Vermont**  
MEDICAL CENTER

*By Electronic Mail & U.S. Mail*

December 20, 2022

Ms. Donna Jerry  
Senior Health Policy Analyst  
Green Mountain Care Board  
144 State Street  
Montpelier, VT 05602  
[Donna.Jerry@vermont.gov](mailto:Donna.Jerry@vermont.gov)

**Re: Docket No. GMCB-003-22con, Relocation of UVMHC's Existing Outpatient Dermatology and Ophthalmology Practices to 350 Tilley Drive. Project Cost: \$35,426,100.**

Dear Ms. Jerry:

The University of Vermont Medical Center Inc. ("UVM Medical Center" or "UVMHC") hereby responds to the Green Mountain Care Board's ("the Board") Requests for Additional Information Q.007, dated December 6, 2022, regarding the above-referenced project.

**1. Explain in detail whether you anticipate the project will result in or contribute to future rate requests and specifically identify the financial data in the record that supports this explanation. If necessary, please provide additional information necessary to support the explanation.**

Response: UVMHC does not anticipate that this project will result in, or meaningfully contribute to, future requests for commercial rate increases. As UVMHC discusses in detail in its annual budget filings, annual rate requests are tied most closely to year over year per unit cost inflation. The vast majority of per unit cost inflation is generated by increases in salaries and the cost of supplies. As UVMHC stated in response to the Board's Q.004, Q.3 (September 16, 2022) and further explains in the below response to Q.2, this project will increase UVMHC's base expense for its Dermatology and Ophthalmology clinics, but not its per unit expense. As shown in the CON Application Table 3B, the project realizes an incremental net operating loss in Project Years 1–5, ranging from -\$1,321,819 to -\$661,591.<sup>1</sup>

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<sup>1</sup> See CON Application Table 3B (rev.) (October 5, 2022).

But that incremental operating loss is too small relative to UVMMC’s Total Operating Revenue in Project Years 1–5, ranging from \$2.0 - \$2.3 billion,<sup>2</sup> to have any material impact on UVMMC’s commercial rate requests in Project Years 1–5.

Perhaps more importantly, however, UVMMC emphasizes that it is impossible to accurately predict UVMMC’s future commercial rate requests based upon any single initiative, whether or not it produces a positive incremental operation margin, as UVMMC’s rate requests are influenced by many other independent factors, including but not limited to other operating revenue from separate services, as well as non-operating revenue from sources such as 340B. For that reason, a detailed discussion of commercial rates is best undertaken as part of the budget approval process, which is specifically designed to address them, rather than with respect to a single CON application.

2. **In your response to Q004 dated September 16, 2022, question 3, it is stated that the project will increase the hospital’s “base expense,” but not its “per unit expense.” Please specifically identify the expenses that are included in the base expense. Also, please identify the financial information in the record that demonstrates that the project will not increase the hospital’s per unit expense. If this information is not in the record, please provide it.**

Response:

UVMMC’s response to Q.004, Q.3 (September 16, 2022) states: “This project will increase [UVMMC’s] base expense, not [UVMMC’s] per unit expense.” In this statement, “Base Expense” means the total operating expense for the UVMMC Dermatology and Ophthalmology clinics that the proposed project would relocate to 350 Tilley Drive; and “Per Unit Expense” means the quotient of “Base Expense” divided by the clinics’ patient volume – in other words, the average operating expense to serve a patient.

The Per Unit Expense in FY21 was \$347 – calculated based on actual FY21 patient volumes shown in UVMMC’s CON Application § I(B)(2) (January 20, 2022) and the FY21 Base Expense shown in UVMMC’s Axiom cost accounting system, which is our best source for this type of cost data, as follows:

<b>FY21 Dermatology and Ophthalmology Clinics Project will Relocate Actual</b>	
<b>Patient Volume</b>	61,921
<b>Total Operating Expense</b>	\$21,470,214
<b>Per Unit Expense</b>	\$347

Please note the Per Unit Expense in the above table is calculated based on FY21 actual expenses.

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<sup>2</sup> See CON Applicable Table 3C (rev.) (October 5, 2022).

As UVMMC explained in its CON Application, the proposed project will expand access to Dermatology and Ophthalmology services by enabling the clinics to serve more (incremental) patients. The incremental Per Unit Expense of the proposed project in Project Years 1–5 – in other words, the clinics’ average operating expense to serve an incremental patient – is less than the FY21 Per Unit Expense, which means the proposed project will reduce the overall Per Unit Expense.

The incremental Per Unit Expense can be confirmed with reference to the project’s incremental operating expense shown in the CON Application Table 3B (rev.) (October 5, 2022), and the incremental patient volume shown in the CON Application § I(B)(2) (January 20, 2022) as follows:

	<b>Project Year 1 - FY24</b>	<b>Project Year 2 - FY25</b>	<b>Project Year 3 - FY26</b>	<b>Project Year 4 - FY27</b>	<b>Project Year 5 - FY28</b>
<b>Incremental Project Operating Expense</b>	\$6,547,466	\$6,856,001	\$7,312,442	\$8,180,283	\$8,637,991
<b>Incremental Project Volume</b>	18,564	20,262	21,924	23,367	24,788
<b>Incremental Per Unit Expense</b>	\$353	\$338	\$334	\$350	\$348

Please note that the above-stated incremental Per Unit Expense in Project Years 1–5 is inflated based on assumed rates of cost inflation, which may occur due to market conditions unrelated to the proposed project. Please see UVMMC’s response to the Board’s Q.003, Q.2 (July 29, 2022) for UVMMC’s explanation of the cost inflation assumptions it used to project the incremental operating expense in Project Years 1–5.

Finally, UVMMC notes that, as demonstrated in CON Application Table 3B, the new revenue the project will generate by enabling UVMMC to provide more services and better access does not quite cover the full incremental base expense in Project Years 1–5, and UVMMC’s response to the Board’s Q.004, Q.3 (September 16, 2022) was not intended to suggest otherwise. As stated in the below response to Q.4, UVMMC anticipates the project will realize an incremental positive operating margin in Project Year 9. Although the project will not produce an incremental positive operating margin for eight years, UVMMC needs to develop this project in order to expand much needed patient access to dermatology and ophthalmology services.

- 3. Revised financial tables submitted on October 5, 2022 show annual operating losses associated with the project in years 1–5 (2024–2028), yet on page 12 of the application it is represented that the negative margin impact is not expected to persist beyond**

**FY2026. Please explain this apparent discrepancy and whether any of your assumptions changed from the original financial tables submitted with the application to those submitted on October 5, 2022.**

Response: The CON Application (January 20, 2022) cites information contained in the financial tables submitted as part of that application, which did not reflect projected future years cost inflation. UVMMC subsequently revised the financial tables twice at the Board's request. On July 29, 2022, UVMMC submitted amended tables reflecting projected cost inflation for Project Years 1–5. On October 5, 2022, UVMMC against submitted amended tables that incorporated UVMMC's 2023 submitted budgeted rate and cost inflation assumptions (with the understanding that these were not yet approved by the Board).

- 4. The income statement (Table 3B) submitted October 5, 2022, shows net operating losses in years one through five of the project. Provide a narrative explanation identifying the factors and the relative extent to which each is contributing to the negative operating margin in each of the five years. Also specify the year in which the project will achieve a positive net operating income.**

Response: The incremental net operating losses in Project Years 1–5 result almost entirely from the fact that relocating Dermatology and Ophthalmology clinics from UVMMC's Main Campus to an off-campus location will reduce the rate of Medicare reimbursement for Dermatology and Ophthalmology services. The anticipated reduction in reimbursement for pre-project volumes is shown on Table 3B in the line labeled "Reimb. Adjustment for Medicare Population." Table 3B would show a positive margin for the project were it not for this anticipated reduced Medicare reimbursement.

Please see the explanation of the Medicare reimbursement impact of providing services at an off-campus location included in the CON Application §I(D)(3) (January 20, 2022) and UVMMC's response to Q.6 of Q.005 (October 5, 2022).

UVMMC expects that the project will realize positive net operating income in Project Year 9. This assumes that the growth in patient volume shown in CON Application §I(D)(3) continues at a constant rate of growth, and UVMMC is able to maintain sufficient staffing to serve the incremental patients.

- 5. What is UVMMC's current (state the date) Days' Cash on Hand and what is it projected to be if the project is financed with equity as represented in financial Table 2? Explain in detail whether and how the reduction in Days' Cash on Hand is expected to impact UVMMC's future budget requests and how it is expected to impact UVMMC's bond ratings and any debt covenants.**

Response: Per UVMMC's unaudited financial statements, UVMMC had approximately 112 Days' Cash on Hand as of September 30, 2022. If UVMMC funds the project with equity, UVMMC's Days' Cash on Hand will be reduced by approximately seven days.

Debt covenants for the University of Vermont Health Network's affiliated hospitals that belong to a Network Obligated Group are tested at the Obligated Group level. The current members of the Obligated Group are UVMMC, The University of Vermont Health Network Inc., Central Vermont Medical Center, Inc., Champlain Valley Physicians Hospital Medical Center, and Elizabethtown Community Hospital. A seven day reduction in UVMMC's Days' Cash on Hand will have no material impact with respect to debt covenants tested at the Network Obligated Group level, and should not by itself have any impact on UVMMC's bond ratings, which are determined based on the overall financial health of the Network, including the age of its physical plan and its operational performance.

Please see the above responses to Q.1 and Q.2 with respect to the proposed project's impact on UVMMC's rate requests in its future proposed budgets.

- 6. For each of the existing spaces currently occupied by Dermatology and Ophthalmology, explain in more detail if and how each space will be repurposed and include an explanation of the approximate amount of any savings or additional cost associated with each existing space.**

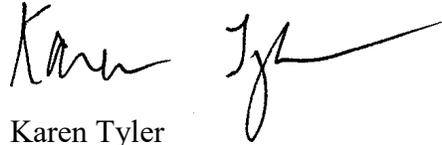
Response: The proposed Project will relocate Dermatology and Ophthalmology clinics from UVMMC's Main Campus and leased space at 462 Shelburne Road.

As explained in the CON Application, UVMMC plans to move its Neurology clinic into the vacated space on the Main Campus. The Neurology clinic is presently located in space UVMMC leases from the University of Vermont at 1 South Prospect Street in Burlington, which also houses other UVMMC clinical, pharmacy, and administrative functions. The building at 1 South Prospect Street is old, deteriorating, and would need substantial capital improvements in the near future to remain suitable for neurology patient care. It would be wasteful for UVMMC to invest in those improvements to leased space. UVMMC instead plans to relocate all functions currently housed at 1 South Prospect Street, and ultimately terminate the lease, in order to realize both cost savings and improvements in patient experience and quality of care. UVMMC has not yet fully developed its project plan for relocation of the Neurology clinic to the Main Campus, and has not yet detailed the associated costs and savings. Once this project plan is complete and internally authorized, UVMMC will file a CON application as required by law.

UVMMC will terminate its lease for the vacated space at 462 Shelburne Road. UVMMC's budget for this property in FY23 is approximately \$254,000. This includes rent/CAM, and operating expenses (contracted cleaning services and supplies, electricity, and maintenance).

Thank you for your attention to UVM Medical Center's application.

Sincerely,

A handwritten signature in black ink, appearing to read "Karen Tyler". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Karen Tyler  
Associate General Counsel  
The University of Vermont Health Network  
[karen.tyler@uvmhealth.org](mailto:karen.tyler@uvmhealth.org)  
(802) 847-1502