

**Green Mountain Care Board**  
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*Kevin Mullin, Chair*  
*Jessica Holmes, PhD*  
*Robin Lunge, JD, MHCDS*  
*Maureen Usifer*  
*Tom Pelham*  
*Susan Barrett, JD, Executive Director*

October 1, 2019

**DELIVERED ELECTRONICALLY**

John Brumsted, MD  
President and CEO, UVMHN  
University of Vermont Medical Center  
111 Colchester Avenue  
Burlington, VT 05401

Dear Dr. Brumsted:

Enclosed please find a Budget Order reflecting the Green Mountain Care Board's decision establishing your hospital's budget for fiscal year 2020. The Board and its staff analyzed your proposed budget and supplemental information provided during the review process and took numerous additional considerations into account in rendering its decision. That decision is described in the enclosed Order.

The hospital budget review process is a key tool in our efforts to constrain health care cost growth while improving the health of Vermonters. As part of this process, the Board considers hospital financial health and the importance of transitioning to a value-based system. We look forward to working with you and your staff to refine and improve the process for the next cycle and beyond. We appreciate the responsiveness and diligence that you and your staff have shown during the FY20 budget cycle.

As part of the Budget Order, your hospital is required to report on the hospital's implementation of Epic and its effect on operating performance and related matters.

If you have any questions regarding the Order or the implementation of its reporting requirements, please feel free to contact me or the Board's hospital budget staff. Again, thank you for your hard work and cooperation during this process.

Sincerely,

s/ Kevin Mullin

Chair, Green Mountain Care Board

cc: Stephen Leffler, MD, Interim, Interim President and COO, UVMC  
Rick Vincent, CFO, UVMC  
Todd Keating, CFO, UVMHN  
Mike DelTrecco, VAHHS





STATE OF VERMONT  
GREEN MOUNTAIN CARE BOARD

**FY2020 HOSPITAL BUDGET DECISION AND ORDER**

In re: University of Vermont Medical Center ) Docket No. 19-004-H  
Fiscal Year 2020 )  
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**INTRODUCTION**

In July, the Green Mountain Care Board (GMCB or “the Board”) began reviewing the Fiscal Year 2020 (FY20) budgets of Vermont’s 14 general hospitals for compliance with policy guidelines and financial targets adopted by the Board in March. The financial targets include net patient revenue and fixed prospective payment (NPR/FPP) growth of not more than 3.5% over the approved FY19 budgets and, for hospitals with an FY19 budget-to-projection variance of -2.0% or greater, not more than five percentage points more than that variance. *See* GMCB, FY 2020 Hospital Budget Guidance and Reporting Requirements, 9 (Mar. 31, 2019) (FY20 Guidance).<sup>1</sup> After considering requested provider transfers and accounting adjustments,<sup>2</sup> the hospitals’ FY20 budget submissions reflect a systemwide average NPR/FPP growth request of 4.5%<sup>3</sup> over the approved, systemwide FY19 NPR/FPP and an overall estimated weighted average charge increase of 3.2%. Following public board meetings, presentations by hospitals and GMCB staff, and a special public comment period that closed on September 3, 2019, the Board approved a reduced systemwide NPR/FPP increase of 4.3% (a \$7.3 million reduction) and an estimated weighted average charge increase of 3.1%. GMCB, Fiscal Year 2020 Approved Vermont Hospital Budget Submissions, 3-5 (Sept. 19, 2019) (Approved Budgets). The Board felt an effective 4.3% NPR/FPP increase was warranted in light of the many challenges facing Vermont’s hospitals and the need to support Vermont’s ongoing transition to a value-based health care system focused on prevention, wellness, and health.

The University of Vermont Medical Center (UVMHC) requested an effective 6.6% increase in NPR/FPP, including an accounting adjustment,<sup>4</sup> and a 4.0% average increase in the

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<sup>1</sup> The hospitals’ FY20 budget materials, including their budget narratives and responses to questions, are available on the GMCB website at: <https://gmcbboard.vermont.gov/content/2020-Budget>. Transcripts of the hospital budget hearings and deliberations are available upon request.

<sup>2</sup> In accordance with the FY20 Guidance, hospitals may request “adjustments” to their approved FY19 NPR/FPP or FY20 request, which, if approved, are not factored into their total NPR/FPP increase. These adjustments most frequently reflect provider transfers but may also appear in other accounting adjustments. *See* FY20 Guidance, 11.

<sup>3</sup> 4.5% reflects the requested growth in NPR/FPP for the entire system, after provider transfers and other adjustments are factored in. Unless otherwise indicated, this Order will reference percent change in NPR/FPP growth inclusive of requested and/or approved accounting adjustments. During the FY20 budget review process, North Country Hospital and Central Vermont Medical Center submitted revised budgets, which affected systemwide calculations. 4.5% NPR/FPP growth incorporates and reflects those revised submissions.

<sup>4</sup> In addition to its 6.1% increase in NPR/FPP, UVMHC requested an accounting adjustment related to its payment reform investments. UVMHC initially requested an \$8.4 million adjustment, reducing this request on August 9, 2019 to \$6.4 million. When the \$6.4 million accounting adjustment is included, UVMHC requested an effective NPR/FPP increase of 6.6%. *See* GMCB PowerPoint, Fiscal Year 2020 Vt. Hosp. Budget, Board Deliberations, 9, 85 - 86 (Sept. 4, 2019).

effective commercial rate. On September 11, 2019, following UVMMC's budget hearing, GMCB staff presentations, and deliberations, the Board approved a reduced effective NPR/FPP increase of 6.4% and a 3.5% increase in the commercial effective rate.

## **LEGAL FRAMEWORK**

Hospital budget review is one of the Board's core regulatory responsibilities. 18 V.S.A. §§ 9375(b)(7), 9456. The Board must establish each hospital's budget no later than September 15 of each year and is required to issue written decisions reflecting each hospital's established budget by October 1. 18 V.S.A. § 9456(d)(1). In making these decisions, the Board is guided by 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 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 may adjust proposed budgets that fail to comply with the Board's established benchmarks. GMCB Rule 3.000, § 3.305. The Board may also adjust a hospital's established budget based on a showing of exceptional or unforeseen circumstance or based on the Board's independent review of a hospital's budget performance. 18 V.S.A. § 9456(f); GMCB Rule 3.000, § 3.401.

The Board first adopted guidelines for the hospital budget review process in 2013, and last updated them this past March. *See* FY20 Guidance, 9.<sup>5</sup> For FY20, the Board set an NPR/FPP growth target of not more than 3.5% over the approved FY19 budgets. *Id.* Additionally, the Board instructed hospitals with an FY19 budget-to-projection variance of -2.0% or greater to not submit an FY20 NPR/FPP increase that exceeds the variance by more than five percentage points, unless clearly justified. *See id.*

## **FY20 REVIEW PROCESS**

The Board and its staff have reviewed and analyzed FY20 budget information submitted by the hospitals, including detailed financial information, utilization data, population health goals, quality measure results, health service area total cost of care data, provision of mental health services, patient access data, budget-to-budget NPR/FPP growth rates, prior budget performance, and requested changes in charges. In addition, the Board considered comments from the Office of the Health Care Advocate (HCA) and from members of the public. The Board also considered each hospital's unique circumstances, including its health care reform efforts, capital and infrastructure needs, hospital-specific risks and opportunities, and applicable cost-reduction initiatives.

The hospitals requested a systemwide NPR/FPP increase of 4.5% over the systemwide FY19 budgeted NPR/FPP, after considering provider transfers and accounting adjustments. GMCB PowerPoint, Fiscal Year 2020 Vt. Hosp. Budget, Board Deliberations, 9 (Sept. 4, 2019)

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<sup>5</sup> The Board's FY20 Guidance is available at <https://gmcboard.vermont.gov/sites/gmcb/files/documents/FY2020%20Hospital%20Budget%20Guidance%20Final%20as%20of%202019-03-27%20updated%204%208%2019.pdf>.

(Deliberations I). After considering presentations from and discussions with hospital leadership, analysis prepared by GMCB staff, and input from the HCA and the public, we establish an actual systemwide NPR/FPP growth rate for FY20 of 4.3% over the approved systemwide FY19 NPR/FPP.

In addition, the Board reviewed each hospital's proposed change in charges, which is the average amount by which a hospital requested to increase its charges.<sup>6</sup> Notably, the respective payers — Medicare, Medicaid, and commercial — do 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. Taking into consideration all adjustments, we reduce the estimated system weighted overall average change in charges from the requested 3.2% to 3.1%. Approved Budgets, 5.

Finally, as we move into Year 3 of the All-Payer ACO Model Agreement (APM Agreement), the Board, through a transparent public process, will continue to refine how it conducts its hospital budget, ACO budget and certification, health insurance rate review, and certificate of need review processes to better understand and align its regulatory work. We encourage the hospitals to continue their efforts to 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. We also note that the FPPs hospitals receive from OneCare as part of the APM Agreement offer a regular and reliable source of income, which can be particularly important for Vermont's smaller, rural hospitals that continue to struggle with small operating margins and changing demographics and utilization trends.

UVMMC filed its FY20 budget submission on July 1, 2019 and requested an effective 6.6% increase in NPR/FPP, including a requested accounting adjustment,<sup>7</sup> a 3.0% increase in overall average charges, and a 4.0% increase in the commercial effective rate. UVMMC FY20 Budget Submission, Staff Analysis, 3 (UVMMC Submission); Deliberations I, 9, & 85. UVMMC's requested NPR/FPP increase did not comply with the FY20 Guidance because it exceeded the Board's maximum NPR/FPP growth target of 3.5%. *See* FY20 Guidance, 9. UVMMC and University of Vermont Health Network (UVMHN) senior leadership presented the FY20 budget to the Board at a public hearing held August 26, 2019. *See* University of Vermont Health Network FY20 Budget Presentation (Aug. 26, 2019) (UVMMC Presentation). On September 11, 2019, the Board approved UVMMC's FY20 budget with a reduced effective increase in FY20 NPR/FPP of 6.4% and a 3.5% increase in the commercial effective rate.

Based on the above, the Board issues the following Findings, Conclusions, and Order:

### **FINDINGS**

1. UVMMC is a prospective payment system hospital with its primary location in Burlington,

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<sup>6</sup> Changes to the actual charges vary by hospital and across service lines.

<sup>7</sup> Before the requested accounting adjustment, UVMMC requested a 6.1% increase in NPR/FPP.

Vermont. UVMMC is Vermont’s only tertiary care hospital and academic medical center. UVMMC is part of UVMHN. UVMMC’s submitted FY20 NPR/FPP accounted for approximately 49.5% of the total submitted NPR/FPP for all 14 regulated hospitals in the State. Deliberations I, 91; *see also* GMCB PowerPoint, Fiscal Year 2020 Vt. Hosp. Budget Submissions, Preliminary Review, 13 (July 31, 2019).

2. UVMMC submitted its FY20 budget on July 1, 2019, seeking an effective 6.6% growth in NPR/FPP, including a requested accounting adjustment, a total NPR/FPP of \$1,351,201,703, a 3.0% increase in overall average charges, and a 4.0% increase in the commercial effective rate. UVMMC Submission, Staff Analysis, Income Statement, 3; Deliberations I, 85-86. UVMMC’s FY20 budget did not comply with FY20 Guidance because its requested NPR/FPP increase exceeded the 3.5% growth cap. *See* FY20 Guidance, 9.
3. UVMMC’s FY19 NPR/FPP budget-to-projection variance is 1.9%, and its NPR/FPP growth from FY18 actuals to FY19 projections is 3.5%. *See* UVMMC Submission, Staff Analysis, Income Statement, 3. UVMMC’s growth in NPR/FPP from its FY19 projections to FY20 budget is 4.1%. *Id.*
4. UVMMC requested a \$6,369,722 accounting adjustment to its FY19 budget for payment reform investments – reclassifying the investments from expenses to deductions from NPR/FPP. Deliberations I, 85. Because the adjustment effectively reduced UVMMC’s FY19 budgeted NPR/FPP, it increased UVMMC’s effective FY20 NPR/FPP request from 6.1% to 6.6%. *Id.* at 86.
5. UVMMC’s FY20 budget includes total operating expenses of \$1,448,538,587, an increase of approximately 8.1% over budgeted FY19 and 4.0% over projected FY19. UVMMC Submission, Staff Analysis, Income Statement, 3.
6. UVMMC’s FY20 requested budget allocates its NPR/FPP by payers, as set forth below.

<b>Fiscal Year 2020 Budget Analysis</b>	<b>FY2019</b>	<b>FY2020</b>	<b>% change FY19B-</b>
<b>NPR/FPP - Payers</b>	<b>Budget (\$)</b>	<b>Budget (\$)</b>	<b>FY20B</b>
<b>Commercial</b>	749,325,797	807,322,739	7.7%
<b>Medicaid</b>	137,057,496	134,333,109	-2.0%
<b>Medicare</b>	376,484,512	398,193,621	5.8%
<b>Disproportionate Share Payments</b>	10,592,241	11,352,235	7.2%
<b>All Payers</b>	1,273,460,046	1,351,201,704	6.1%

*See* UVMMC Submission, Staff Analysis, Net Payer Revenue Changes – Payers, 4. UVMMC’s requested FY20 NPR/FPP represents a reasonable allocation by payer as compared to UVMMC’s FY19 budget.

7. UVMMC is a participating provider in OneCare Vermont’s Medicaid, Medicare, and Blue Cross Blue Shield of Vermont programs for the 2019 calendar year and plans to participate in those programs again for the 2020 calendar year. UVMMC Submission, Narrative, Appendix

V; Deliberations I, 91. The portion of income that UVMMC receives as FPPs has progressively increased during the past three years and is growing at a faster rate than most Vermont hospitals, as set forth in the table below. Deliberations I, 91.

% FPP/NPR & FPP		
FY18 Act.	FY19 Proj.	FY20 Budget
9.4%	10.4%	17.1%

8. UVMMC participates in health system reforms in other ways, as well. UVMMC is one of two founders of OneCare. *In re OneCare Vermont Accountable Care Organization, LLC Fiscal Year 2019*, FY19 Accountable Care Organization Budget Order, No. 18-001-A, Findings, ¶ 1 (GMCB Feb. 5, 2019). Additionally, UVMMC’s self-insured employee group health plan is a OneCare payer. *Id.*, ¶ 6. UVMMC also uses its group health plan to pilot new wellness and population health programs. UVMMC Presentation, 49.
9. For FY20, UVMMC has budgeted an operating margin of \$46,375,027, or approximately 3.1%, and a total margin of 4.3%. UVMMC Submission, Staff Analysis, Income Statement, 3. UVMMC projects a 2.7% operating margin and total margin of 3.9% in FY19. *Id.* UVMMC’s goal is to achieve a minimum operating margin of 3.5% in the coming years, which it reports is the industry recommendation for academic medical centers. *See* UVMMC Presentation, 57.
10. UVMMC’s operating margin has declined in recent years, which the hospital noted as a concern with respect to UVMHN’s bond rating and the network’s operating margin. Deliberations I, 88; UVMMC Budget Hearing Tr., 11:17-11:23.
11. UVMMC’s approved 5-year average change in charge is 3.9%. Deliberations I, 11.
12. UVMMC’s budget anticipates 192.24 days cash on hand<sup>8</sup> at the conclusion of FY20. UVMMC Submission, Staff Analysis, Fiscal Year 2020 Budget Analysis, 7. UVMMC projects it will have 189 days cash on hand at the conclusion of FY19. *Id.*
13. UVMMC and UVMHN are funding several large capital projects, including the network-wide transition to a new electronic health record system (Epic), new primary care facilities, added inpatient psychiatric capacity at Central Vermont Medical Center, and several other remodeling and equipment replacement projects. UVMMC Presentation, 60-61.
14. As the only tertiary care hospital and academic medical center in Vermont, UVMMC experiences higher patient volume and acuity than other Vermont hospitals. *See* UVMMC Presentation, 18, 46; Deliberations I, 94 (presenting VAHHS data); *see also* Letter from Vermont Federation of Nurses and Health Professionals Executive Board to the Green Mountain Care Board (Aug. 22, 2019) (noting that other network hospitals send UVMMC their sickest patients).

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<sup>8</sup> The systemwide average is 166 days cash on hand.

15. UVMMC's narrative, testimony, and other filed budget information comply with the Board's FY20 hospital budget requirements.
16. Approving UVMMC's budget as outlined below will promote the efficient and economic operation of the hospital and is consistent with the current Health Resource Allocation Plan (HRAP).

### CONCLUSIONS

Our review of FY20 budgets coincides with a period of increased financial stress within Vermont's hospital system. In recent years, hospitals have described how a variety of factors are impacting their bottom lines, including health care workforce shortages, rising employee health care costs, shifts in health care utilization, challenges with government reimbursements, changing patient demographics, and difficulties transitioning their electronic health record systems. As each hospital is unique, each is being affected by these factors differently. However, as we have described previously, it is fair to say that, as a result of these and other factors, the smaller rural hospitals in the state are facing financial challenges. *See* GMCB, Report on Financial Health of Vermont's Critical Access Hospitals, 9 (Jan. 2019) (CAH Report). In addition to these more traditional pressures on revenues and expenses, many hospitals are assuming financial burdens associated with a transition to a more accountable health care system — a transition we fully support. We also recognize that, on a systemwide basis, hospitals have funded approximately half of the health care reform investments that have been made under the All-Payer Model. In our review this year, we have sought to consider each hospital's unique circumstances, which, in some cases, justify NPR/FPP increases above the targets in our FY20 Guidance. We have also required several hospitals to develop a sustainability plan. The self-reflection that this work will require may be difficult, but it is important, and we look forward to hearing from hospitals in the coming months on their progress.

For the reasons set forth below, we establish UVMMC's FY20 budget by reducing its commercial effective rate increase from 4.0% to 3.5% and reducing its NPR/FPP from 6.6% to 6.4% after accounting adjustments.<sup>9</sup>

We start our analysis by observing that UVMMC's NPR/FPP increase — 6.1%, or 6.6% after accounting adjustments — does not comply with the 3.5% NPR/FPP growth cap set forth in the FY20 Guidance. Findings, ¶ 2. However, the overage is smaller than it might otherwise appear when one considers the hospital's historical operating performance. In FY19, the Board established an NPR/FPP growth target of not more than 3.2% (including 0.4% for health care reform investments) over FY18 budgets. GMCB, FY 2019 Hospital Budget Guidance and Reporting Requirements, 9 (Apr. 23, 2018). UVMMC requested, and the Board approved, a much lower increase of 1.1% over the hospital's adjusted FY18 budget. *In re University of Vermont Medical Center Fiscal Year 2019*, FY19 Hospital Budget Decision and Order, No. 18-004-H, 1 (GMCB Sept. 28, 2018). UVMMC projects it will exceed its FY19 budget by 1.9% before the accounting adjustment. Findings, ¶ 3. Its FY18 actual to FY19 projected growth will be 3.5% and its FY19 projection to FY20 budget growth will be an estimated 3.9% (based on the

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<sup>9</sup> Excluding accounting adjustments, we approve an FY20 NPR/FPP increase of 5.9% for UVMMC.

0.2% reduction in growth approved by the Board). *Id.* Had UVMMC requested a more realistic increase in FY19, as allowed by the guidance, the request before us now would be more reasonably aligned with actual operating performance and the 3.5% target for FY20.

We also find UVMMC's justifications for growth in excess of 3.5% credible under the circumstances. Patients throughout the region seek care at UVMMC and smaller hospitals transfer patients with more complex health conditions to UVMMC given its role as the state's only tertiary care hospital and academic medical center. *See Findings, ¶ 14.* We also recognize the challenges UVMMC and all Vermont hospitals are facing with government payer reimbursement rates; the increasing costs of bad debt and free care; and maintaining favorable credit ratings and compliance with bond covenant requirements. *See Findings, ¶ 10.* UVMMC's budget performance shows increased NPR/FPP year over year and a declining margin. *Findings, ¶¶ 3, 10.* Our focus throughout this review has been to establish realistic and meaningful limits based on the hospitals' individual budget performance and utilization history, without compromising access to quality care.

UVMMC requested a 4.0% increase in its commercial effective rate. *Findings, ¶ 2.* Though we recognize UVMMC's utilization increases, we note that volume increases combined with charge increases, produce budget overages. Accordingly, we conclude UVMMC's increased FY20 utilization assumptions can offset a reduction in its commercial rate. Therefore, we reduce UVMMC's requested commercial effective rate increase from 4.0% to 3.5%. We note that this increase is a not-to-exceed cap and not a guaranteed reimbursement increase from any particular payer.

In approving this budget, we also note that hospitals are required to timely report any event that could materially change the approved NPR/FPP budget, including accounting changes, in their monthly monitoring reports and expect UVMMC to inform the Board of these changes in a timely manner in the future.

### **ORDER**

Based on our findings and conclusions and the authority granted by Chapter 221, Subchapter 7 of Title 18, UVMMC's budget is approved for FY20 subject to the following terms and conditions:

- A. UVMMC's FY20 NPR/FPP budget is approved at a 6.4% effective growth rate over its FY19 budget, including the requested accounting adjustment, or \$1,348,125,703.
- B. UVMMC's commercial effective rate increase is approved at not more than 3.5%.
- C. Beginning on or before November 20, 2019, and every month thereafter, UVMMC shall file with the Board the actual year-to-date FY20 operating results for the prior month. The report shall be in a form and manner as prescribed by GACB staff.
- D. UVMMC shall advise the Board of any material changes to its FY20 budgeted revenues and expenses, or to the assumptions used in determining its budget, including:

- a. changes in Medicaid, Medicare, or commercial reimbursement;
  - b. additions or reductions in programs or services to patients; and
  - c. any other event that could materially change the approved NPR/FPP budget.
- E. On or before January 31, 2020, UVMMC shall file with the Board, in a form and manner prescribed by GMCB staff, such information as the Board determines necessary to review UVMMC's FY19 actual operating results.
- F. UVMMC shall file with the Board one copy of its FY19 audited financial statements and associated management letter(s), as well as the parent organization's audited consolidated financial statements, if applicable, 15 days after the hospital receives the document(s), or by January 31, 2020, whichever is earlier.
- G. UVMMC shall timely file all forms and information required for provider acquisitions and/or transfers as determined by GMCB staff, if applicable.
- H. UVMMC shall notify the Board of any impact on its budget resulting from the Epic system implementation.
- I. After notice and an opportunity to be heard, the Board may amend the provisions contained herein, and issue an Amended Order, consistent with its authority as set forth in 18 V.S.A. Chapter 220, Subchapter 1, 18 V.S.A. Chapter 221, Subchapter 7, and GMCB Rule 3.000.
- J. All materials required above shall be provided electronically, unless doing so is not practicable.
- K. 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: October 1, 2019  
 Montpelier, Vermont

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

## **Pelham, dissenting.**

The University of Vermont Medical Center (UVMMC) is the preeminent hospital among Vermont's 14 hospitals. It alone receives nearly 50 percent of all NPR/FFP revenues and in combination with network affiliates Porter and Central Vermont hospitals, receives nearly 61 percent of such revenues. Deliberations I, 91, 95. Given this scale, I am struck by the reality of UVMMC garnering even larger proportions of key fiscal metrics and concerned that in a fiscal landscape defined by 3.5 percent total cost of care growth as established by Vermont's ACO Model (APM) Agreement,<sup>10</sup> that Vermont's other community hospitals have diminished opportunities to access necessary resources.

Since 2014, UVMMC has had the fourth highest growth rate in NPR/FFP revenues at 4.2 percent. *See* Deliberations I, 88, 95. Thus, the state's largest hospital is growing revenues at a significantly higher rate than the established growth target of 3.5 percent. Notably, the other hospitals among the top four growth rates are Porter, Central Vermont and Northeastern Regional. Further, after "rebasings" UVMMC's revenue stream by \$42.6 million in 2018 for purposes of establishing its 2019 budget base, UVMMC is projecting to exceed its approved budget increase of \$19 million by an additional \$24 million. *In re University of Vermont Medical Center Fiscal Year 2019, FY19 Hospital Budget Decision and Order, No. 18-004-H, Findings, ¶ 4* (GMCB Sept. 28, 2018); Deliberations, 95.

While UVMMC's top line revenue growth has been high relative to other hospitals, it's bottom line results as measured by operating margins have also been favorable, accruing over the last five years at between 3.4 percent and 6.3 percent with an average of 5.1 percent. In dollars that means that of the \$393 million in total systemwide operating margin across all 14 hospitals from 2014 through 2018, \$316 million has fallen to the bottom line at UVMMC. *See* GMCB PowerPoint, Fiscal Year 2018 Year-End Actuals Reporting, 34 (March 13, 2019). And further, for 2019 UVMMC projects an operating margin of \$39.4 million of a total net systemwide margin of \$35 million. Such is possible because seven hospitals in 2019 are projecting negative operating margins. *Id.* In terms of certificates of need (CONs), a measure of major capital investments, a similar profile is evident. Since 2014, UVMMC has been approved for \$385 million in CONs, or 73 percent, of a total of \$529 million.

I don't cite the above to criticize UVMMC. UVMMC is simply pursuing available opportunities. Further, UVMMC has been a leader in the effort to reform Vermont's healthcare system through its partnership in establishing Vermont's ACO. And, UVMMC's stature and scale offers Vermont's healthcare community a clinical base not possible at Vermont's other hospitals. UVMMC along with Dartmouth Hitchcock are most often the "go to" hospitals serving Vermont's more acute morbidities.

What I do see are flaws in the distribution of fiscal resources among Vermont's hospitals that work to the disadvantage of Vermont's smaller hospitals. Two areas of concern are the payer mix and cost shift differentials among hospitals. In addition to its scale, UVMMC has a very favorable payer mix, projected at 61.1 percent commercial and just 9.9 percent Medicaid for

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<sup>10</sup> <https://gmcboard.vermont.gov/sites/gmcb/files/files/payment-reform/All%20Payer%20Model%20ACO%20Agreement.pdf>

2020. GMCB PowerPoint, Fiscal Year 2020 Vt. Hosp. Budget, Board Deliberations, 29 (Sept. 11, 2019). Compare this to the other end of the spectrum, Springfield Hospital, with a commercial base at 47 percent and Medicaid base at 18.1 percent. *Id.* Medicaid sets procedure reimbursement rates that often don't cover costs. However, a hospital with a relatively high commercial and low Medicaid mix is less burdened by Medicaid's low rates while those with a relatively weak commercial base struggle to balance revenue streams.

In view of the above context, where would UVMMC's NPR/FFP revenues be if after the 2018 rebasing, UVMMC were allowed the maximum in terms of GMCB budget guidelines which were a 3.2 percent increase in 2019 and a 3.5 percent increase for 2020? The result would be \$1.331 billion, or \$20.2 million lower than UVMMC's FY20 request but still an overall increase of \$33.6 million over its 2019 projected NPR/FFP and a \$57.5 million increase over its 2019 approved budget. The reduction of \$20 million lessens the imbalances of the payer mix and cost shift onto commercial ratepayers while allowing UVMMC an additional \$33.6 million in revenue and to remain inside the guard rails of the APM. A \$20.2 million reduction equates to less than a 1.5% reduction in UVMMC's \$1.35 billion request.

The inequities embedded in the distribution of NPR/FFP are significant, incremental and cumulative and undermine the financial opportunities of some Vermont hospitals each budget cycle. Given UVMMC's scale and preeminent leadership position, UVMMC can be a leading force along with the hospital association (VAHHS) to engage the Governor and Legislature in rebalancing the revenue landscape within the context of the APM, such that all hospitals have equal access to the limited supply of federal, state and commercial revenues. Examples of such reforms exist today. In insurance rate review, there is a risk adjustment system where funds flow among insurers based on relative acuity measures. Or at the federal level for Medicaid funding to states, the Federal Medical Assistance Percentages (FMAPs) are adjusted annually based upon state per capita income levels as compared to national averages.

Given the above context and specific history of UVMMC's passed and projected budget growth, I do not join the majority in this instance and would have limited UVMMC's increase in charge to just 1%.

Dated: October 1, 2019

s/ Tom Pelham  
Member, Green Mountain Care Board

Filed: October 1, 2019

Attest: s/ Jean Stetter  
Green Mountain Care Board  
Administrative Services Director

*NOTICE TO READERS: This document is subject to revision of technical errors. Readers are requested to notify the Board (by email, telephone, or in writing) of any apparent errors, so that any necessary corrections may be made. (Email address: Lori.Perry@vermont.gov).*