

STATE OF VERMONT  
GREEN MOUNTAIN CARE BOARD

**FY19 HOSPITAL BUDGET DECISION AND ORDER**

In re: University of Vermont Medical Center     )  
Fiscal Year 2019                                     )  
\_\_\_\_\_ )                                     Docket No. 18-004-H

**Introduction**

In July, the Green Mountain Care Board (GMCB, or the Board) began its review of the Fiscal Year 2019 (FY19) budgets of Vermont’s 14 regulated hospitals for their compliance with policy guidelines and financial targets, including a net patient revenue (NPR) growth target of 2.8% with an additional allowance of up to 0.4% for health care reform spending. *See* FY 2019 Hospital Budget Guidance and Reporting Requirements.<sup>1</sup> The FY19 submissions reflected a system-wide average NPR growth request of 2.9% (including health care reform investments) over the approved Fiscal Year 2018 (FY18) base, and an estimated weighted average rate increase of 3.1%. For the purposes of our orders, NPR is inclusive of budgeted fixed prospective payments (FPP) for those hospitals participating in health care reform programs, such as Accountable Care Organization (ACO) programs, that provide FPP.

Following a series of discussions at public board meetings, presentations by hospital leadership and GMCB hospital budget staff, and a public comment period that extended to September 10, 2018 the Board on September 12, 2018 voted to approve The University of Vermont Medical Center’s NPR growth of 1.1% over its rebased FY18 budget, approve a 0.4% allowance for health care reform investments, and approve a 2.5% increase in rate.

**Legal Framework**

Hospital budget review is one of the Board’s core regulatory responsibilities. 18 V.S.A. §§ 9375(b)(7), 9456. Annually no later than September 15, the Board must establish each hospital’s budget, and is required to issue a written decision reflecting the established budget by October 1. 18 V.S.A. § 9456(d)(1). In making its decision, 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 a hospital’s budget based on its showing of exceptional or unforeseen circumstances, *see* 18 V.S.A. § 9456(f), or based on the Board’s independent review of a hospital’s budget performance. GMCB Rule 3.000 (*Hospital Budget Review*) § 3.401.

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<sup>1</sup> The hospital’s 2019 budget materials, including its budget narrative and responses to questions, are available on the Board’s website at: <http://gmcboard.vermont.gov/hospitalbudgets>. Transcripts of the hospital budget hearing are available upon request.

The Board first adopted guidelines for the hospital budget review process in 2013, and last updated them this past April.<sup>2</sup> As a key performance indicator for FY19, the Board set an overall system NPR<sup>3</sup> growth target of 2.8% over each hospital's approved FY18 budget base. The Board established an additional NPR growth allowance of up to 0.4% for health care reform activities, investments and initiatives that reduce health care costs and improve quality of care over the long term by 1) supporting the transition toward value-based purchasing, 2) increasing access to primary care, 3) reducing deaths from suicide and/or drug overdose, and/or 4) reducing the prevalence and/or morbidity of chronic disease. Hospitals requesting the additional allowance must specifically identify the health reform investment(s) in their budgets and provide a plan to measure the return on investment.

### **FY19 Review Process**

The Board and its staff have reviewed and analyzed FY19 budget information submitted by the hospitals which includes detailed financial information, payment and delivery reform investments, utilization data, population health goals, quality measure results, provision of mental health services, patient access data, budget-to-budget NPR growth rates, prior budget performance, and requested rate increases. In addition, the Board has taken into consideration comments from the Office of the Health Care Advocate (HCA) and from members of the public. The Board considered each hospital's unique circumstances, including its health care reform efforts and its efforts to address issues identified in its community health needs assessment (CHNA).

As submitted for FY19, the hospitals requested a system-wide NPR increase of 2.9% over their FY18 base NPR. Most hospitals included health care reform investments at the 0.4% allowance. Following presentations by hospital leadership, ongoing discussions between Board members, GMCB staff and the hospitals, input from members of the public and the HCA, and Board-approved adjustments to some hospitals' FY18 base NPR<sup>4</sup>, we establish an actual system-wide hospital NPR growth rate over FY18 of 2.1%.

In addition, the Board has reviewed each hospital's proposed rate increase, which is the average overall amount by which a hospital increases its charges.<sup>5</sup> Notably, each respective payer—Medicare, Medicaid and commercial—does 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

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<sup>2</sup> The FY19 Hospital Budget Guidance and Reporting Requirements are available at <http://gmcbboard.vermont.gov/sites/gmcb/files/GMCB%20FY19%20Hospital%20Budget%20Guidance%20%20Reporting%20Requirements%20Final%20Apr23%20Update.pdf>.

<sup>3</sup> NPR is a key indicator used to assess changes in hospital budgets and includes payments received from patients, government, and insurers for patient care, but does not include hospital revenues from activities such as cafeterias, parking, and philanthropy.

<sup>4</sup> After Board-approved adjustments to hospitals' FY18 base NPR were finalized on September 11 and 12, the hospital-proposed systemwide NPR growth rate was 2.2%.

<sup>5</sup> Actual changes in the rates charged by the hospital will vary across service lines and goods and services provided by the hospital.

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 overall system weighted average rate increase from the submitted 3.1% to 2.7%.

Finally, as we move into Year 2 of the All-Payer ACO Model Agreement, the Board, through a transparent public process, will continue to refine how it conducts its hospital budget, ACO budget and certification, and health insurance rate review processes to better understand and align its regulatory work. We encourage the hospitals to continue their efforts to favorably position their institutions, individual providers, and their served populations as we move away from a fragmented, fee-for-service system to an integrated delivery system and value-based provider reimbursements.

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

### **Findings**

1. The University of Vermont Medical Center (UVMHC) is Vermont's only tertiary care hospital and academic medical center, with its primary location in Burlington. UVMHC and five smaller hospitals, a home health and hospice agency, and a multi-specialty physician group serving Vermont and Northern New York, comprise the University of Vermont Health Network (UVMHN).
2. As the State's largest hospital, UVMHC's submitted FY19 NPR accounts for approximately 48.8% of the total submitted NPR for all 14 regulated hospitals in the State.
3. UVMHC's budget submission for FY19 seeks a 1.1% increase in NPR over its budgeted FY18 NPR with adjustments, *see* ¶ 5, below (and as rebased by the Board, *see* ¶ 4, below), and a requested rate increase of 4.0%.
4. The Board in March 2018 rebased UVMHC's FY18 NPR, for the purpose of calculating FY19 budgeted NPR growth, from \$1,209,654,762 to \$1,252,297,020.<sup>6 7</sup>
5. UVMHC, in its FY19 budget submission, requested an adjustment that adds \$7,919,705 to its FY18 NPR budget base, in recognition of changes from FY18 to FY19 in accounting for ACO administrative fees.
6. UVMHC has included in its budget 0.7%, or \$8,572,000, for health care reform investments, which exceeds the 0.4% allowance outlined by the Board in its FY19 budget guidance. The investments include health information technology implementation across the network to improve care coordination and standardization of treatment protocols, ACO

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<sup>6</sup> Because no financial metrics other than NPR were rebased, there are limitations in comparing FY18 budget to FY19 budget for those metrics. Comparing FY18 projections to FY19 budget may provide a more useful comparison.

<sup>7</sup> The Board voted in March 2018 to rebase UVMHC's FY18 budget based on its actual performance for FY17. *See* <http://gmcboard.vermont.gov/sites/gmcb/files/GMCHB%20FY19%20Budget%20Guidance%20Cover%20Letter.pdf>.

investments, increased staffing for mental health and ExpressCare services, and support for palliative care services.

7. The hospital is participating in the Medicaid, Medicare, and Commercial Next Generation ACO programs in 2018, and plans to continue its participation in ACO programs with all three payers in 2019.
8. UVMHC's FY19 budget includes total operating expenses of \$1,339,909,058, an increase of approximately 2.8% over projected FY18.
9. UVMHC's budget includes reasonable estimates of \$382,797,257 in Medicare NPR, an increase of 2.7% over projected FY18.
10. UVMHC's FY19 budget includes reasonable estimates of \$137,482,232 in Medicaid NPR, an increase of 1.2% over projected FY18.
11. UVMHC's FY19 budget includes reasonable estimates of \$742,588,316 in commercial NPR, an increase of 2.2% over projected FY18.<sup>8</sup>
12. UVMHC's growth in NPR from projected FY18 to budgeted FY19 is 2.0%.
13. For FY19, UVMHC has budgeted an operating margin of \$39,244,024, or approximately 2.8%, and a total margin of 5.1%. UVMHC projects an operating margin of 3.9% for FY18.
14. The FY19 budget indicates 192.4 days cash on hand.
15. Based on identified community needs, UVMHC has worked to develop and expand programs relating to mental health and substance use disorders, access to healthy food, affordable housing, oral health, chronic conditions, healthy aging, early childhood and family services, and economic opportunities.
16. UVMHC's narrative, testimony, and other filed budget information comply with the Board's FY19 hospital budget requirements.
17. After reviewing UVMHC's submission, the Board and the HCA posed written questions and the hospital provided written responses. UVMHC participated in a public hearing before the Board on August 22, 2018, where it presented information and answered questions from the Board and the HCA, and the Board discussed all 14 hospital budgets at subsequent public meetings. On September 12, 2018, the majority of the Board voted to establish UVMHC's FY19 budget.

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<sup>8</sup> UVMHC is one of four hospitals that separately reported NPR from fixed prospective payments (FPP) for all three ACO Programs – commercial, Medicaid, and Medicare – in their FY19 budgets. UVMHC's total FY19 budget commercial NPR consists of \$696,739,763 in conventional NPR (*e.g.*, fee-for-service payments) and \$45,848,553 in NPR from FPP and reserves. Our decision approving a rate increase in this order applies to the former.

18. 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

We first adjust UVMMC's FY18 base NPR by approving the requested \$7,919,705 adjustment relating to accounting for its ACO administrative fees. The hospital is participating in all three ACO programs, and making this adjustment to the FY18 base will ensure comparability between NPR for FY18 and FY19.

Next, we approve the hospital's FY19 NPR growth of 1.1% over the adjusted and rebased FY18 NPR. In addition, we approve an allowance of 0.4%, or \$5,009,188, for investments in health care reform, which is included within the approved 1.1% NPR growth.

We last reduce UVMMC's proposed increase in commercial rate from 4.0% to 2.5%. The hospital has relatively healthy margins and days cash on hand, as well as expense trends that could potentially be tempered by additional expense reductions and operational efficiencies. We note that the increase approved by the Board does not constrain negotiations between the hospital and insurers and that actual prices paid by Vermont commercial ratepayers for health care services should reflect underlying cost and market rates for comparable services.

We therefore establish UVMMC's FY19 Net Patient Revenue at \$1,273,460,046, an increase of 1.1% from its FY18 adjusted and rebased budget, and approve a 2.5% increase in rate.

### Order

Based on our findings and authority granted by Chapter 221, Subchapter 7 of Title 18, UVMMC's budget is approved for FY19 subject to the following terms and conditions:

- A. UVMMC's FY19 NPR budget is approved at 1.1% growth rate, inclusive of a 0.4% allowance for health reform investments, or a total NPR of \$1,273,460,046.
- B. UVMMC's commercial rate is established at 2.5% over current approved levels.
- C. Beginning on or before November 19, 2018 and every month thereafter, UVMMC shall file with the Board the actual year-to-date FY19 operating results for the prior month. The report shall be in a form and manner as prescribed by the Board.
- D. UVMMC shall advise the Board of any material changes to the FY19 revenues and expenses, or to the assumptions used in determining its budget, including:
  - a. changes in Medicaid, Commercial, or Medicare reimbursement;
  - b. additions or reductions in programs or services to patients; and
  - c. any other event that could materially change the approved NPR budget.

- E. On or before January 31, 2019, UVMMC shall file with the Board, in a form and manner prescribed by the Board, such information as the Board determines necessary to review the Hospital's FY18 actual operating results in order to determine whether the Hospital's budget meets the Board's budget performance review policy.
- F. On or before January 31, 2019, UVMMC shall file with the Board one copy of its FY18 audited financial statements and associated management letter(s), as well as the hospital's parent organization's audited consolidated financial statements, if applicable.
- G. UVMMC shall timely file all forms as required for physician acquisitions and/or transfers, if applicable.
- H. UVMMC shall consult with Vermont Information Technology Leaders (VITL) to facilitate patients' ability to electronically consent to adding their clinical data to the Vermont Health Information Exchange (VHIE).
- I. UVMMC shall explore the option of providing health insurance coverage for its employees through a self-insured program that participates in OneCare Vermont, if the hospital provides a self-insured program.
- J. After notice and an opportunity to be heard, the GMCB 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.
- K. All materials required above shall be provided electronically, unless doing so is not practicable.
- L. 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: September 28, 2018  
 Montpelier, Vermont

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

Filed: September 28, 2018

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

\* Pelham, concurring:

I believe it is important that I voice my view on this particular budget, accounting for almost half of the statewide NPR, consistent with my remarks and questions during the course of the hospital budget proceedings.

UVMHC requested a 4.0% commercial rate increase, and 2.8% “lift” for CVMC. Its submission noted that commercial rates would have to be increased to 7.08% and 6.58% respectively, to “cover the (Medicare and Medicaid) cost-shift and provider tax burdens.” In fact, all 14 hospitals noted the burden imposed by the cost shift.

Viewed collectively, the 2019 hospital budgets underscore the level at which the cost shift dramatically and harmfully skews hospital revenues. Together, the hospitals requested \$80.3 million in new revenues. Of these requests, 3.9% was for Medicaid increases, 20.0% for Medicare increases, and 76.1% for commercial insurance increases, the burden of which falls on individual policyholders and employers. In contrast, hospital discharge data shows that in 2016 Medicaid comprised the primary payer for 26% of discharges, Medicare 34%, and commercial insurance 40%. Clearly, hospitals have little faith that Medicaid and Medicare will afford even modest additional resources to cover the costs of patient services.

State budget data validates my concern about the cost shift. The appropriation for Medicaid over the course of three years (2017-2019) grew by only \$9.3 million, a 0.7% annual growth rate. *See* <http://dvha.vermont.gov/budget-legislative/1sfy-2019-budget-book-final.pdf>, at 153.

Yet, at the end of fiscal year 2018, the State was able to deposit \$78.09 million into the “Human Services Caseload Reserve,” a reserve in part set aside to support Medicaid. *See* [http://www.leg.state.vt.us/jfo/appropriations/fy\\_2019/Special%20Session%202018/GF\\_Balance\\_Sheet\\_-\\_FY16\\_to\\_now\\_06-21-2018.pdf](http://www.leg.state.vt.us/jfo/appropriations/fy_2019/Special%20Session%202018/GF_Balance_Sheet_-_FY16_to_now_06-21-2018.pdf) at lines 29, 32, and 43).

In my view, there are State funds available, some of which should be used to mitigate the cost shift. Not only must Vermonters have access to affordable health insurance and care, the cost shift must be addressed as the State implements fundamental payment reform, moving from the current fee-for-service system to a fixed payment system that emphasizes population health. UVMHC and the UVM Health Network, as the dominant hospital system in the State, should provide the leadership necessary to fully understand and remedy the detrimental effects of the cost shift, and recognize that resources are available to better align who is served by Vermont’s health care system with who pays for it.

*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](mailto:Lori.Perry@vermont.gov)).*