

Green Mountain Care Board
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October 8, 2020

DELIVERED ELECTRONICALLY

John Brumsted, MD
President and CEO, UVMHN
Central Vermont Medical Center
PO Box 547
Barre, VT 05641

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 2021. 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 FY21 budget cycle.

As part of the Budget Order, your hospital shall participate in telephonic check-ins to be scheduled at the discretion of the Board Chair in consultation with Board staff based on your FY2021 year-to-date operating performance and related matters. Also, your hospital shall participate in the Board's strategic sustainability planning process. Details of this requirement are scheduled to be discussed with stakeholders and will be communicated later.

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: Anna Noonan, President and COO, CVMC



Todd Keating, CFO, UVMHN
Mike DelTrecco, VAHHS
Julia Shaw, HCA



STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

FY2021 HOSPITAL BUDGET DECISION AND ORDER

In re: Central Vermont Medical Center) Docket No. 20-002-H
Fiscal Year 2021)
_____)

INTRODUCTION

In May 2020, the Green Mountain Care Board (GMCB or “the Board”) issued fiscal year 2021 (FY2021) budget guidance for Vermont’s 14 general (community) hospitals.¹ GMCB, FY2021 Abbreviated Hospital Budget Guidance and Reporting Requirements (eff. May 31, 2020) (FY2021 Guidance). As anticipated in the Board’s FY2020 Hospital Budget Guidance and Reporting Requirements (FY2020 Guidance), the Board’s FY2021 Guidance established a limit of 3.5% on growth in hospitals’ net patient revenue/fixed prospective payments (NPR/FPP) over the NPR/FPP approved in their FY2020 budgets. FY2021 Guidance, 5; FY2020 Guidance, 9.

Central Vermont Medical Center (CVMC) requested an 8.7% increase in NPR/FPP over its FY2020 budgeted NPR/FPP, a 6.0% average increase in overall charges, and an 8.5% increase in its effective commercial rate. On September 29, 2020, following CVMC’s hearing, GMCB staff presentations, and deliberations, the Board voted to approve CVMC’s FY2021 budget with an 8.3% increase in NPR/FPP compared to the hospital’s FY2020 budgeted NPR/FPP and a commensurate reduction to expenses, a 6.0% average increase in overall charges, and a 7.0% average increase in the hospital’s effective commercial rate.²

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 annually no later than September 15 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 its 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

¹ Currently, only “general hospitals” (as defined in 18 V.S.A. § 1902) are subject to GMCB hospital budget review. 18 V.S.A. § 9451(1).

² On September 9, 2020, the Board exercised its authority under Act 91 to extend the deadlines for budget decisions and budget orders. The Board unanimously approved an extension of the deadline for decisions from September 15 to September 25, 2020 as well as an extension of the deadline for written orders to two weeks after the Board votes on the last hospital budget. GMCB Board Meeting Minutes (Sept. 9, 2020). On September 16, 2020, the Board voted to approve CVMC’s budget with an 8.3% increase in NPR/FPP and a commensurate reduction to expenses, a 6.0% average increase in overall charges, and a 7.0% average increase in the hospital’s effective commercial rate, consisting of a 4.0% standard increase and a 3.0% temporary increase. On September 23, 2020, CVMC requested reconsideration of the Board’s approval of a “bifurcated” rate. At that meeting, additional information was also provided regarding federal guidance issued on September 19, 2020 by the Health Resources and Services Administration regarding Cares Act Provider Relief Fund reporting requirements. On September 29, 2020, the Board reconsidered its prior vote.

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 and other guidance. GMCB Rule 3.000, § 3.305.

Hospitals bear the burden of persuasion in justifying their proposed budgets. GMCB Rule 3.000, § 3.306(a). During its review, the Board must consider numerous factors, including hospitals’ utilization information and assumptions, community and state health care needs, the cost shift, hospitals’ payer mix and performance under past budgets, public comments, and any other information the Board deems relevant. *See* 18 V.S.A. § 9456(b); GMCB Rule 3.000, § 3.306(b). Each approved budget must, among other requirements, be consistent with state and community health care needs, reflect the hospital’s performance for prior years, take into consideration any benchmarks established by the Board, and promote the hospital’s efficient and economic operations. *See* 18 V.S.A. § 9456(c).

To “prioritize and maximize direct patient care, safeguard the stability of health care providers, and allow for orderly regulatory processes that are responsive to the evolving needs related to the COVID-19 pandemic,” the Board was given authority to waive or permit variances from State laws, guidance, and standards with respect to several of its regulatory responsibilities, including hospital budget review. This new Board authority expires six months following the termination of the state of emergency related to COVID-19. 2020, No. 91, § 5.

FY2021 REVIEW PROCESS

The Board and its staff began developing the FY2021 Guidance in December 2019. During the drafting process, Board members and GMCB staff met with representatives of the hospitals, the Vermont Association of Hospitals and Health Systems (VAHHS), and the Office of the Health Care Advocate (HCA), a division of Vermont Legal Aid that represents the interests of Vermont consumers. Ordinarily, GMCB staff present a draft of the proposed hospital budget guidance to the Board in early March and the Board approves the guidance by March 31. *See* GMCB Rule 3.000, § 3.202(a). This year, the Board exercised its authority under Act 91 and approved the FY2021 Guidance in May 2020. GMCB Board Meeting Minutes (May 27, 2020). To allow hospitals to focus on responding to the COVID-19 pandemic, the Board reduced the amount of information it typically requires hospitals to submit and established a filing deadline of July 31, as opposed to the usual deadline of July 1. *Compare* FY2021 Guidance *with* FY2020 Guidance.

In the FY2021 Guidance, the Board established a limit of 3.5% on growth in hospitals’ NPR/FPP over the NPR/FPP approved in their FY2020 budgets. In establishing hospital budgets, the Board limits not just hospitals’ NPR/FPP growth, but also the average amount that hospitals can increase their charges or reimbursements. This year, the Board invited hospitals to submit FY2021 change-in-charge requests in two parts: one part reflecting the adjustment to the overall charges that hospitals typically seek in each year’s budget, and the second part reflecting a “time-limited charge request to offset FY2020 commercial revenue losses due to COVID-19.” *See* FY2021 Guidance, 5.

The Board explained that it would consider the following factors when reviewing a hospital's NPR/FPP and change-in-charge requests: the financial solvency of the hospital, including its days cash on hand and other routinely collected metrics; the hospital's expense reduction plans; the hospital's long-term strategic and financial plans for sustainability; data and information regarding actual and projected utilization and price changes; COVID-19 related stimulus grants; and impacts to Vermonters and employers in the commercial market, including self-funded employers. FY2021 Guidance, 5.

Hospitals began submitting their FY2021 budget proposals to the Board in late July 2020. Collectively, the hospitals requested systemwide NPR/FPP growth of 3.3% over the NPR/FPP reflected in the approved FY2020 budgets (or an effective growth rate of just under 3.3% after considering requested provider transfers and accounting adjustments),³ with individual requests ranging from -7.6% to 8.7%. Hospitals also requested a weighted average charge increase of 7.0%, including a 0.2% temporary "COVID" charge increase. GMCB Health System Finance Team, FY2021 Vermont Hospital Budgets Board Deliberations (Sept. 2, 2020) (GMCB Deliberations I), 5, 6, 9.

Following several public meetings, presentations by hospitals and GMCB staff, and a special public comment period, the Board approved hospital budgets that reflect systemwide NPR/FPP growth of 2.7% over hospitals' approved FY2020 budgets and a weighted average charge increase of 5.6%, none of which was approved as a temporary increase.⁴

CVMC filed its FY2021 budget submission on July 31, 2020. CVMC requested an 8.7% increase in NPR/FPP compared to its FY2020 approved budget, which is above the 3.5% growth limit established in the FY2021 Guidance. Central Vermont Medical Center FY2021 Budget Submission (CVMC Submission), Income Statement; FY2021 Guidance, 5. CVMC requested a 6.0% average increase in overall charges and an 8.5% average increase in its commercial effective rate. CVMC Submission, Change in Charge and NPR Increase. CVMC and University of Vermont Health Network senior leadership presented the FY2021 budget to the Board at a public hearing on August 24, 2020. UVMHN FY2021 Budget Presentation (UVMHN Presentation). On September 29, 2020, following CVMC's hearing, GMCB staff presentations, deliberations, a request to reconsider, and further deliberations, the Board approved CVMC's FY2021 budget with an 8.3% increase in NPR/FPP compared to the hospital's FY2020 budgeted NPR/FPP, a 6.0% average increase in overall charges, and a 7.0% average increase in the effective commercial rate. *See supra* note 1.

³ In accordance with the FY2021 Guidance, hospitals may request that the Board consider provider transfers (either into or out of a hospital's system) when evaluating the hospital's compliance with the Board's NPR/FPP growth rate ceiling. *See* FY2021 Guidance, 6.

⁴ On September 15-16, 2020, the Board voted to establish hospital budgets that reflected a systemwide "standard" charge increase of 5.1% and a systemwide temporary charge increase of 0.5%. On September 29, 2020, the Board reconsidered its decisions to establish hospital budgets with temporary charge increases, and, for each affected hospital, approved a single rate.

FINDINGS

COVID-19 Pandemic

1. COVID-19 is a potentially life-threatening disease caused by a recently discovered coronavirus (SARS-CoV-2). On March 7, 2020, the first case of COVID-19 was detected in Vermont. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. On March 13, 2020, Vermont's Governor declared a state of emergency to help ensure Vermont had the necessary resources to respond to this evolving threat. Executive Order 01-20.⁵

2. Over the weeks and months following the arrival of COVID-19 in Vermont, a number of measures were taken to prevent the spread of the virus, including the closure of schools and childcare centers, the closure of bars and restaurants, and restrictions on the size of non-essential gatherings. Office of Governor Phil Scott, Novel Coronavirus (COVID-19): Vermont State Response & Resources (updated July 15, 2020).⁶ To conserve personal protective equipment (PPE) and other critical resources and to limit exposure of hospital patients and staff to COVID-19, on March 20, 2020, Vermont's Governor ordered the postponement of all non-essential adult elective surgery and medical and surgical procedures. Addendum 3 to Executive Order 01-20.⁷

3. In comparison to other states, Vermont has done well in limiting the incidence of disease among its population. Vermont's number of confirmed COVID-19 cases (approximately 1,705 total cases as of 12:00 p.m. on September 17, 2020) is the lowest of any state in the country. *Compare* Vt. Dpt. of Health, Current Activity in Vt., COVID-19 in Vt. Dashboard *with* U.S. Ctrs. for Disease Control & Prevention, COVID Data Tracker.⁸ Vermont also has one of the lowest COVID death rates in the country and, during the past few months, has maintained one of the lowest positivity rates and 7-day average number of COVID cases. *Id.* The measures that have been taken to stem the spread of the disease, however, have taken a significant toll on Vermont's economy. In July 2020, 8.3% of Vermonters in the labor force (28,090 individuals) were unemployed. Vt. Dept. of Labor, Local Area Unemployment Statistics, 2 (July 2020).⁹ In contrast, Vermont's unemployment rate in July 2019 was 2.4%. *Id.* The most recent data available from the U.S. Census Bureau's Household Pulse Survey show that approximately 48% of Vermonters surveyed lost employment income from March 13, 2020 through July 21, 2020. U.S. Census Bureau, Week 12 Household Pulse Survey: July 16-July 21, Employment Tables, Table 1 (July 29, 2020).¹⁰

⁵ <https://governor.vermont.gov/content/declaration-state-emergency-response-covid-19-and-national-guard-call-out-co-01-20>.

⁶ <https://governor.vermont.gov/covid19response>.

⁷ <https://governor.vermont.gov/content/addendum-3-executive-order-01-20>.

⁸ <https://www.healthvermont.gov/response/coronavirus-covid-19/current-activity-vermont#dashboard>; <https://covid.cdc.gov/covid-data-tracker/#cases> (last accessed Sept. 17, 2020).

⁹ <http://www.vtmi.info/laus.pdf>.

¹⁰ <https://www.census.gov/data/tables/2020/demo/hhp/hhp12.html#tables>.

4. Health care providers' revenues were substantially affected by the pandemic and the pandemic response. For example, on a system-wide basis, hospitals' FY2020 NPR/FPP through May 2020 was down 8.9% compared to the prior year and was down 13.1% compared to the FY2020 approved budgets. Green Mountain Care Board, May 2020 Year-to-Date Hospital Performance, 6 (July 15, 2020).¹¹

5. The federal and state governments have acted to help individuals, businesses, state and local governments, and health care providers deal with the economic effects of the pandemic and the pandemic response. For example, the \$2 trillion CARES Act that the federal government enacted on March 27, 2020 authorized one-time direct cash payments to individuals and married couples, increased unemployment insurance benefits and expanded unemployment insurance eligibility, provided grants and low-interest loans to businesses, provided payments to hospitals and other health care providers, and created a Coronavirus Relief Fund (CRF) to provide \$150 billion in direct assistance to state and local governments. Pub. L. 116-36 (2020).

6. In FY2020, Vermont's hospitals received over \$365 million in COVID-19-related relief funding, including advance Medicare and Blue Cross and Blue Shield of Vermont payments, prospective Medicaid payments from the Department of Vermont Health Access, Paycheck Protection Program (PPP) loans through the U.S. Small Business Administration, grant funding, and funding from other sources. *See* GMCB Deliberations I, 23. According to hospitals' FY2021 budget submissions, approximately \$204 million of this relief funding were considered loans and advances that must be paid back and almost \$161 million were grants that do not need to be paid back. *See* GMCB Deliberations I, 23. While utilization declined precipitously beginning in March 2020 and all hospitals are projecting to end FY2020 with less NPR/FPP than budgeted, many are projecting they will meet their operating margins due to the stimulus funds and intense cost savings measures they implemented. *See* GMCB Deliberations I, 8-9, 17.

7. The State of Vermont's allocation of the \$150 billion Coronavirus Relief Fund is \$1.25 billion. In Act 136, the Vermont Legislature appropriated \$275 million of this money to the Agency of Human Services (AHS) to distribute needs-based grants to health care providers. 2020, No. 136, § 7. AHS is administering two application cycles in which a broad array of health care providers that experienced revenue losses or increased expenses due to COVID-19 can apply for "health care provider stabilization grants." The application deadline for the first application cycle closed on August 15, 2020 (covering the time period March 1, 2020 through June 15, 2020). The second application cycle is planned for October 2020 (covering the time period March 1, 2020 through September 15, 2020). AHS, Health Care Provider Stabilization Grant Program: Update and Hospital Awards (Sept. 15, 2020) (CRF Presentation), 4.

¹¹ <https://gmcboard.vermont.gov/sites/gmcb/files/Board-Meetings/May%202020%20YTD%20Hospital%20Performance%20-%20FINAL.pdf>.

8. AHS has advised the Board that nine Vermont hospitals applied for funding in the first application cycle and seven hospitals were approved for grants.¹² The total dollar value of the grants awarded by AHS to Vermont hospitals is expected to be \$66,901,947.¹³

CVMC Budget Submission

9. CVMC is a prospective payment system hospital with its primary location in Berlin, Vermont. CVMC is part of the University of Vermont Health Network (UVMHN), a health system that includes two other Vermont hospitals—the University of Vermont Medical Center and Porter Hospital—and three New York hospitals—Alice Hyde Medical Center, Champlain Valley Physicians Hospital, and Elizabethtown Community Hospital.

10. CVMC submitted its FY2021 budget to the Board on July 31, 2020. CVMC's proposed FY2021 budget includes total NPR/FPP of \$237,013,421, 8.7% more than the NPR/FPP approved in the hospital's FY2020 budget and 18.7% more than the hospital's projected FY2020 NPR/FPP. GMCB Deliberations I, 8-9. CVMC's proposed budget-to-budget NPR/FPP growth is above the 3.5% limit established in the FY2021 Guidance. *See* FY2021 Guidance, 5.

11. CVMC seeks a 6.0% average increase in its overall charges¹⁴ and an 8.7% average increase in its effective commercial rate. GMCB Deliberations III, 116. CVMC calculates that a 1.0% increase in overall average charges adds \$621,588 in NPR to its FY2021 budget from commercial payers. CVMC Submission, Change in Charge and NPR Increase; GMCB Deliberations III, 119.

12. For FY2020, the Board approved CVMC's request for a 5.9% increase in its commercial effective rate; for FY2019, the Board reduced CVMC's increase from the 2.8% it requested to 2.3%; for 2018, the Board approved CVMC's request for a 0.72% increase; and for FY2017, the Board reduced CVMC's increase from the 3.0% it requested to 2.45%. GMCB Deliberations III, 119.

13. CVMC's FY2021 budget includes total operating expenses of \$253,272,192, 8.2% more than the hospital's FY2020 budgeted operating expenses and 7.5% more than the hospital's projected FY2020 operating expenses. CVMC Submission, Income Statement; *see also* GMCB Deliberations III, 14-15.

14. CVMC's proposed FY2021 budget anticipates an increase in other operating revenue of \$1,258,950 or 7.8% over the approved FY2020 budget. CVMC Submission, Income Statement; UVMHN Presentation, 40. CVMC attributes the increase in other operating revenue to the addition of five new 340B retail pharmacies. UVMHN Presentation, 40; Testimony of Todd Keating, Hearing Transcript (Tr.), 58:17-59:3.

¹² Porter Hospital's application was still pending at the time of AHS's presentation to the Board. CRF Presentation, 11. Subsequently, AHS advised the Board that Porter Hospital was approved for a grant of \$1,277,904.

¹³ AHS's presentation to the Board stated that the total dollar value of awards was expected to be just over \$65.6 million. CRF Presentation, 11. With Porter Hospital's award of \$1,277,904, the total amount increases to \$66,901,947.

¹⁴ CVMC seeks to increase its gross charges by 6.0% for hospital inpatient, hospital outpatient, professional, and skilled nursing facility services. CVMC FY2021 Budget Submission, Change in Charge and Net Patient Revenue Increase.

15. CVMC is not projecting any volume related to the suspension of elective and non-urgent procedures to carry over into FY2021. CVMC Submission, Narrative, 14.

16. The provider tax estimate in CVMC’s FY2021 budget was overstated by at least \$430,000. See Letter from Dr. John Brumsted (Sept. 16, 2020), 1. Lowering the budgeted provider tax by \$430,000 would reduce CVMC’s commercial effective rate from 8.5% to 7.8% and reduce CVMC’s NPR/FPP growth from 8.7% to 8.5%. Transcript of Board Deliberations (Sept. 16, 2020), 116:3-13.

17. CVMC’s proposed FY2021 budget includes the following allocation of NPR/FPP by payers:

Central Vermont Medical Center			
Fiscal Year 2021 Budget Analysis			
Payer Mix	2020 B	2021 B	2020B-2021B
Gross Patient Revenue			
Medicare	\$190,801,138	220,504,952.8	15.6%
Medicaid	\$73,592,900	74,761,016.9	1.6%
Commercial, Self-Pay/Other/WC	\$166,589,470	179,250,193.5	7.6%
Commercial	\$127,845,299	132,965,191.3	4.0%
Self-Pay/Other/WC	\$38,744,171	46,285,002.2	19.5%
Total Gross Patient Revenue	\$430,983,508	474,516,163.2	10.1%
-			
Net Patient Revenue/Fixed Prospective Payments			
Medicare	\$74,599,172	89,740,268.0	20.3%
Medicaid	\$28,799,754	30,692,074.9	6.6%
Commercial, Self-Pay/Other/WC	\$113,314,970	115,320,368.9	1.8%
Commercial	\$91,807,371	96,683,903.9	5.3%
Self-Pay/Other/WC	\$21,507,599	18,636,465.0	-13.3%
Total NPR & FPP	\$216,713,896	235,752,711.8	8.8%
Reimbursement Ratio			
Medicare	39%	41%	
Medicaid	39%	41%	
Commercial, Self-Pay/Other/WC	68%	64%	
Commercial	72%	73%	
Self-Pay/Other/WC	56%	40%	
Total Reimbursement Ratio	50%	50%	
NOTE: Bad Debt and Charity are included in the "Self-Pay/Other/WC" category.			

CVMC Submission, Payer Mix.

18. CVMC's NPR/FPP payer mix is projected to be approximately 39% Medicare in FY2020 compared to 38% in the proposed FY2021 budget. *See* GMCB Deliberations III, 120. CVMC has assumed a Medicare rate increase of 0.85%. Testimony of Todd Keating, Tr., 56:8-10, 186:8.

19. CVMC expects its requested 8.5% average increase to its effective commercial rate will yield \$5,466,878 in NPR in its FY2021 budget, \$5,283,501 from commercial payers and \$183,377 from Medicare. CVMC Submission, Change in Charge and NPR Increase; GMCB Deliberations III, 119. This represents approximately 29% of CVMC's proposed 8.7% NPR/FPP growth over the FY2020 budget. GMCB Deliberations III, 119.

20. Given CVMC's underlying payer reimbursement assumptions, its FY2021 NPR/FPP proposal represents a reasonable allocation of revenue by payer as compared to its FY2020 budget.

21. CVMC has been an active participant in Vermont's health care reform efforts and currently participates in OneCare Vermont's Medicare, Medicaid, and Blue Cross and Blue Shield of Vermont ACO programs. CVMC's FY2021 budget assumes the hospital's continued participation in these programs in 2021. *See* UVMHN Budget Hearing Questions and Follow-Up Items (Sept. 1, 2020), 7. CVMC's FY2021 budget anticipates approximately \$45.5 million (19.2%) of its total NPR/FPP will be from FPP. GMCB Deliberations III, 10.

22. CVMC reported receiving approximately \$9.6 million in loans and \$17.3 million in grants in FY2020 in connection with COVID-19. CVMC Submission, Rev Replacement Funds; CVMC Submission, Narrative, 10. At the time of its budget hearing, CVMC had applied to AHS for a stabilization grant of approximately \$4 million. Testimony of Todd Keating, Tr., 212:5-10; GMCB Deliberations III, 24. AHS advised the Board that CVMC was approved to receive just under \$8 million in the first round of grants. CRF Presentation, 11. These funds are not factored into CVMC's FY2020 projections.

23. CVMC generated operating margins of -2.1% in FY2019, -3.8% in FY2018, -0.9% in FY2017, 1.0% in FY2016, and 2.9% in FY2015. GMCB Deliberations III, 118.

24. As of February 2020, CVMC's NPR/FPP was approximately 2.9% above budget and 4.0% above actual FY2019 NPR/FPP. GMCB Deliberations III, 22. CVMC projects that it will end FY2020 with an operating margin of -2.0%. GMCB Deliberations III, 17, 118. This should improve with CVMC's receipt of just under \$8 million in the first round of stabilization grants. *See supra*, Findings of Fact (Findings), ¶ 22. CVMC's approved FY2020 budget included an operating margin of 0.1%. CVMC Submission, Income Statement.

25. CVMC's FY2020 budget reflects an average age of plant of 12.9; the system average is 14.7. GMCB Deliberations III, 19.

26. For FY2021, CVMC has budgeted an operating margin of 0.5% and a total margin of 2.9%. CVMC Submission, Income Statement.

27. CVMC budget anticipates 108 days cash on hand in FY2021. CVMC expects to conclude FY2020 with 112 days of cash on hand.¹⁵ CVMC Submission, Balance Sheet; GMCB Deliberations III, 18.

28. CVMC's narrative, presentation, and other filed budget information comply with the Board's FY2021 hospital budget requirements.

29. Approving CVMC'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) and ongoing community needs in CVMC's Health Service Area.

CONCLUSIONS

Before we analyze CVMC's proposed FY2021 budget, we wish to comment on certain themes that were apparent from the 14 budget proposals we reviewed this year. First, we commend the excellent work that hospitals and other providers have done to modify their facilities and protocols to treat patients with COVID-19 and prepare for a surge of infections; to equip their staff with PPE; to expand testing capabilities necessary for the State's coordinated response to the pandemic; to adapt to new modes of care delivery such as telemedicine; to manage the serious financial disruptions that accompanied the precipitous decline in volumes that occurred earlier this spring by implementing difficult cost saving measures and applying for grants and other funding opportunities that became available; and to prepare budgets in the midst of significant uncertainty. In their budget proposals, hospitals have done their best to estimate what utilization will be in FY2021 and these estimates are, for some hospitals, driving their NPR/FPP above or below the 3.5% growth limit.

Second, we note with serious concern that hospitals generally assumed their public payer reimbursements will be flat or will increase only slightly next year. Thus, the cost shift, which has continued to grow almost every year since FY2008, is likely to grow again in FY2021. *See* GMCB Annual Report for 2019 (Jan. 15, 2020), 25-27 (detailing the estimated hospital costs shifted onto commercial and other payers each year and calculating that this cost shift contributed approximately 14.5% on average to the health insurance rates reviewed by the Board in 2019). During our review of health insurance rates, insurers have advised the Board that the cost shift drives up commercial premiums. For example, Blue Cross and Blue Shield of Vermont's Chief Actuary testified during this year's review of FY2021 individual and small group rates that, using the Board's data, he estimated that "35 percent of all commercial payments to hospitals are due to the cost shift, and, if we were able to fully eliminate the cost shift for Vermont hospitals, premiums would be lower by about 17 percent." *In re Blue Cross and Blue Shield of Vermont 2021 Individual and Small Group Rate Filing*, GMCB-005-20rr, Testimony of Paul Schultz, Tr. 82:11-18 (July 20, 2020). Similarly, during the hospital budget review process, one hospital CEO testified: "[W]e have been very concerned about the cost shift, and the fact that the only people who are paying this are the private businesses and the folks that are providing health insurance for their folks. The

¹⁵ CVMC's days cash on hand estimates do not include funds received for COVID relief. GMCB Deliberations III, 18; *Supra* Findings of Fact, ¶ 22. The systemwide average days cash on hand for FY2021 is 145 days. GMCB Deliberations III, 18.

government payers are not participating. And that is unsustainable. . . .” Rutland Regional Medical Center FY2021 Hospital Budget Hearing, Testimony of Claudio Fort, Tr. 88:8-14 (Aug. 18, 2020).

This ongoing, fundamental imbalance in our health care payment structure remains an increasing threat to our system, made even worse this year by DVHA’s announcement that it will be level funding rates that do not have a federally mandated rule for increase. Department of Vermont Health Access, FY2021 Governor’s Recommended Budget Restatement – DVHA Narrative, 2 (Aug. 20, 2020).¹⁶ And, as Vermont continues to age, there may be fewer and fewer commercially insured Vermonters able to disproportionately contribute to hospitals’ margins, which relates to the cost shift, but also speaks to the importance of other regulatory mechanisms, such as the All-Payer Accountable Care Organization Model (APM), that can impact more than just commercial reimbursement rates.

Finally, we note the relationship between the serious financial difficulties hospitals experienced during the first wave of COVID-19 and the prevailing fee-for-service (FFS) reimbursement system. While the most frequently cited problem with FFS reimbursement is that it incentivizes increased volume, we also observed this year that when non-emergency procedures needed to be curtailed to prevent the spread of COVID-19, hospitals were left to prepare for an influx of patients at the same time their revenues were falling dramatically. We believe this crisis highlights the importance of moving to a more stable and predictable revenue stream for both payers and providers, which is one of the goals of the APM. It also highlights the importance of hospital sustainability planning, particularly when one also considers the financial difficulty that a number of Vermont hospitals have experienced in recent years.

Having made these high-level observations, we turn now to CVMC’s proposed FY2021 budget. While CVMC’s proposed budget-to-budget NPR/FPP growth is over twice the 3.5% limit established in the FY2021 Guidance, its financial situation cautions against drastic cuts. *See Findings, ¶ 10.* The hospital is budgeting a 0.5% operating margin in FY2021. *See Findings, ¶ 26.* CVMC has had negative operating margins in each of the past three years (FY2017-FY2019). *See Findings, ¶ 23.* The hospital was projecting a 2.0% operating margin for FY2020 with 112 days cash on hand, however, that projection should improve materially with the receipt of an almost \$8 million stabilization grant. *See Findings, ¶¶ 22, 24, 27.* CVMC may also be able to get additional money as part of the second stabilization grant application cycle. *See Findings, ¶ 7.*

Not only is CVMC’s proposed NPR/FPP growth significantly above the 3.5% limit, its proposed commercial effective rate increase of 8.5% (or 7.8% after accounting for the provider tax overstatement) is also relatively high and comes on the heels of a 5.9% increase for FY2020. *See Findings, ¶¶ 11-12, 16.* The Board must balance the fact that commercial rate payers and consumers will bear the costs of high charge increases in the form of higher premiums, co-pays, and deductibles while hospitals are facing increasing costs that need to be covered by rate increases, cost savings, and efficiencies. A reduction of the commercial effective rate to 7.0% is appropriate and results in an NPR/FPP growth rate of 8.3%, which is the highest growth we have approved this year. GMCB Health System Finance Team, Fiscal Year 2021 Hospital Budget

¹⁶ https://ljfo.vermont.gov/assets/Uploads/62ff558a10/DVHA_2021-Budget-Restatement-Narrative_FINAL-08.19.20.pdf.

Summary (Sept. 29, 2020), 5. Because we are reducing CVMC's NPR/FPP, CVMC must make commensurate reductions in expenses in order to achieve the margins it has targeted.

ORDER

Based on our findings and conclusions and the authority granted by Chapter 221, Subchapter 7 of Title 18, CVMC's budget is approved for FY2021 subject to the following terms and conditions:

- A. CVMC's FY2021 NPR/FPP budget is approved at 8.3% more than its FY2020 budget, with total NPR/FPP of \$236,081,039. CVMC must reduce its expenses commensurate with the reduction in its NPR/FPP growth rate from 8.7% to 8.3%.
- B. CVMC's average overall change in charge is approved at no more than 6.0% over current approved levels and its average effective commercial rate is approved at no more than 7.0% over current approved levels.
- C. Beginning on or before November 20, 2020, and every month thereafter, CVMC shall file with the Board the actual year-to-date FY2021 operating results as of the end of the prior month. The report shall be in a form and manner as prescribed by GMCB staff.
- D. CVMC shall participate in telephonic check-ins to be scheduled at the discretion of the Board Chair in consultation with Board staff based on CVMC's FY2021 year-to-date operating performance.
- E. CVMC shall advise the Board of any material changes to its FY2021 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.
- F. On or before January 31, 2021, CVMC shall file with the Board, in a form and manner prescribed by Board staff, such information as the Board determines necessary to review the hospital's FY2020 operating results.
- G. CVMC shall file with the Board one copy of its FY2020 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 its statements or by January 31, 2021, whichever is earlier.
- H. CVMC shall participate in the Board's strategic sustainability planning process.
- I. CVMC shall timely file all forms and information required for provider acquisitions and/or transfers as determined by Board staff, if applicable.

- J. CVMC shall file all requested data and other information in a timely and accurate manner.
- K. 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.
- L. All materials required above shall be provided electronically, unless doing so is not practicable.
- M. 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 8, 2020
 Montpelier, Vermont

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

Filed: October 8, 2020

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).