

Green Mountain Care Board
144 State Street
Montpelier, VT 05602

[phone] 802-828-2177
www.gmcbboard.vermont.gov

Kevin Mullin, Chair
Jessica Holmes, PhD
Robin Lunge, JD, MHCDS
Maureen Usifer
Tom Pelham
Susan Barrett, JD, Executive Director

October 1, 2021

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 2022. The Board and its staff analyzed your proposed budget, reviewed supplemental information, and took into account numerous additional considerations in rendering its decision during this process. 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, sustainability, 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 FY22 budget cycle, particularly in light of the ongoing COVID-19 pandemic.

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 FY22 year-to-date operating performance and related matters. Also, as part of developing guidance for the FY23 hospital budget review process, your hospital and Board staff will work together to potentially identify and include measures in non-financial reporting to further several goals of the Vermont healthcare system, including developing strategies to reduce wait times and access to care issues, reducing potentially avoidable utilization, and continuing to participate in the Board's strategic sustainability planning process. Details of these requirements 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
Kimberly Patnaude, CFO, CVMC
Rick Vincent, CFO, UVMHN
Mike DelTrecco, VAHHS
Kaili Kuiper, HCA



STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

FY2022 HOSPITAL BUDGET DECISION AND ORDER

In re: Central Vermont Medical Center)
 Fiscal Year 2022)
_____) Docket No. 21-002-H

INTRODUCTION

In July, the Green Mountain Care Board (GMCB or “the Board”) began reviewing the Fiscal Year 2022 (FY22) budgets of Vermont’s 14 general (community) hospitals for compliance with policy guidelines and financial targets adopted by the Board in March. The financial benchmarks include net patient revenue and fixed prospective payment (NPR/FPP) growth of not more than 3.5% over the approved FY21 budgets. *See* GMCB, FY 2022 Hospital Budget Guidance and Reporting Requirements, 5 (Mar. 31, 2021) (FY22 Guidance).¹ The Board permitted an allowance for NPR/FPP that exceeds the growth guidance for revenues (and expenses) related to COVID-19 vaccine clinics and testing. *See id.* The hospitals’ FY22 budget submissions reflect a systemwide average NPR/FPP growth request of 6.4%² over the approved, systemwide FY21 NPR/FPP. Preliminary Review of FY2022 Hospital Budget Submissions and Public Budget Hearing Exemptions, 16 (July 28, 2021) (FY22 Preliminary Review). Individual hospital NPR growth ranged from 3.0% to 13.4%. *Id.* Hospital budget submissions also reflected an overall estimated weighted average charge increase of 6.0%, with individual charge increases ranging from 2.2% to 8.3%. FY22 Preliminary Review, 12. Following public Board meetings, presentations by hospitals and GMCB staff, and a special public comment period that closed on September 1, 2021, the Board approved hospital budgets that are expected to result in a reduced systemwide NPR/FPP increase of 6.1% (6.0% after factoring in provider transfers and accounting adjustments) and an estimated weighted average charge increase of 5.2%. GMCB, Fiscal Year 2022 Approved Vermont Hospital Budget Submissions, 16, 18 (September 28, 2021) (Approved Budgets). The Board felt a 6.1% NPR/FPP increase was warranted in light of the many challenges facing Vermont’s hospitals, including the ongoing effects of the COVID-19 pandemic, growing evidence of pent-up demand and higher acuity patients, and the increased costs associated with inflationary pressures and significant staffing challenges.

Central Vermont Medical Center (CVMC) submitted its budget on July 1, 2021, requesting a 6.5% increase in NPR/FPP, which is a 4.54% increase in NPR/FPP after adjusting for provider transfers and excluding revenue from COVID-19 clinics and testing, and a 7.41%

¹ The hospitals’ FY22 budget materials, including their budget narratives and responses to questions, are available on the GMCB website at: <https://gmcboard.vermont.gov/hospitalbudget/fy2022budget>. Transcripts of the hospital budget hearings and deliberations are available upon request.

² In accordance with the FY22 Guidance, hospitals may request “adjustments” to their approved FY21 NPR/FPP or FY22 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* FY22 Guidance, 6. After adjusting FY22 NPR/FPP budgets to remove COVID-19 vaccine clinics and testing revenue, the systemwide average NPR/FPP growth request for FY22 from approved FY21 approved budgets was 6.0%. *See* FY22 Preliminary Review, 16.

overall change in charge. On September 13, following GMCB staff presentations, and deliberations, the Board approved CVMC's FY22 budget with a reduced 5.72% increase in NPR/FPP from its approved FY21 budget (which is a 3.74% increase after adjusting for provider transfers), with commensurate reductions to operating expense growth in the aggregate in order to protect margins, and a change in charge of 6.0%, which is a reduction from CVMC's submitted budget.

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 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. Additionally, the Board must execute its duty of annually establishing each hospital's budget in a way that advances the principles of healthcare reform set forth in 18 V.S.A. § 9371. *See* 18 V.S.A. § 9375(a). 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. The Board may also adjust a hospital's established budget 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.

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 national, regional, or in-state peer group norms, according to indicators, ratios, and statistics established by the Board, and promote the hospital's efficient and economic operations. *See* 18 V.S.A. § 9456(c).

The Board annually adopts guidance by March 31 that establishes benchmarks for hospitals to use in developing and preparing their upcoming fiscal year's budgets. GMCB Rule 3.000, § 3.202. The Board issued guidance for FY22 budgets on March 31, 2021, after public meetings with Vermont hospitals, the Vermont Association of Hospitals and Health Systems, and

other interested parties. *See* FY22 Guidance, 3, 4.³ For FY22, the Board set an NPR/FPP growth guidance of not more than 3.5% over the approved FY21 budgets. FY22 Guidance, 5.

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 Board authority expires six months following the termination of the state of emergency related to COVID-19. 2020, No. 91, § 5. The state of emergency related to COVID-19 ended on June 15, 2021. *See* State of Vermont, Executive Order No. 06-21 (June 15, 2021).

Pursuant to its authority under Act 91, the GMCB exempted any hospital that met specific criteria from a public hearing regarding its FY22 budget. *See* FY22 Guidance, 6-7. The criteria that a hospital was required to meet included an FY22 NPR/FPP rate increase at or under 3.5% from its FY21 approved budget (excluding NPR/FPP from COVID-19 testing and vaccine clinics), a change in charge request at or under 3.5% from its FY21 budget, continued involvement in value-based care reform, and a budget submission that complied with FY22 Budget Guidance, had schedules that reconciled, and was deemed reasonable. *See id.*

FY22 REVIEW PROCESS

Hospitals submitted their FY22 budgets to the GMCB on or about July 1, 2021, and hospitals that were not exempt from public hearings presented their budgets at public GMCB meetings between August 17, 2021 and August 27, 2021. The Board and its staff reviewed and analyzed FY22 budget information submitted and presented by the hospitals, including detailed financial information, utilization data, inflation costs, population health goals, value-based care participation, patient access data and wait times, budget-to-budget NPR/FPP growth rates, trended NPR/FPP growth rates forward from FY19 as a pre-pandemic base year, 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 6.4% over the systemwide FY21 budgeted NPR/FPP. GMCB PowerPoint, FY 2022 Vermont Hospital Budgets, Board Deliberations, 11 (Sept. 13, 2021) (Deliberations III). After adjusting budgets to remove NPR/FPP related to COVID-19 vaccines and testing, the systemwide requested NPR/FPP increase was 6.0%. *Id.* After considering presentations from and discussions with hospital leadership, analysis prepared by GMCB staff, and input from the HCA and the public, the Board established hospital budgets that allow for a systemwide NPR/FPP growth rate for FY22 of 6.1% over the approved systemwide FY21 NPR/FPP. Approved Budgets, 16.

³ The Board’s FY22 Guidance is available at <https://gmcbboard.vermont.gov/sites/gmcb/files/documents/FY22%20Hospital%20Budget%20Guidance-%20Final%203%2030%202021.pdf>.

In addition, the Board reviewed each hospital's proposed change in charge, which is the average amount by which a hospital increases its charges.⁴ 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. Medicaid reimbursements have not increased, and generally hospitals have not expected any increase in Medicaid reimbursement in FY22 budgets, despite increased costs associated with inflation. The larger rate increases that hospitals requested for FY22 are driven by that cost shift, as hospitals need higher commercial charges to cover inflation not reimbursed by public payers. For example, CVMC represents that absent the cost shift the requested increase from commercial payers would be approximately \$2.9 million, but with the cost shift, the requested commercial increase is approximately \$5.9 million, or an additional \$3 million. *See* CVMC Presentation, Slide 33. Taking into consideration all adjustments, the Board reduced the estimated system weighted overall average change in charge from the requested 6.0% to 5.2%. Approved Budgets, 18.

Vermont community hospitals continue to transition to a value-based health care system focused on prevention, wellness, and health. Hospitals' expected fixed prospective payments as a percentage of NPR/FPP for FY22 range from 0% to 24%. Preliminary Review, 21. Out of close to \$3 billion NPR/FPP for all Vermont community hospitals in FY22, \$409 million, or 14%, is expected to be in the form of fixed prospective payments for FY22. *Id.* For FY21, hospitals also project 14% of NPR/FPP to be in the form of fixed prospective payments.

The Board considered each hospital's submitted budget in the context of certain financial metrics that measure the hospital's performance against state, regional, and national peer groups. Financial metrics include operating margins, total margins, days cash on hand, days receivable, days payable, long-term debt to capitalization ratios, debt service coverage ratios, and average age of plant. *See* Deliberations II, 24-31. The financial metrics are compiled from data from Fitch Ratings Solutions, Inc. and Flex Monitoring.⁵

CVMC filed its FY22 budget submission on July 1, 2021, and a revised narrative on July 13, 2021. CVMC requested a 6.5% increase in its NPR/FPP and a 7.41% change in charge. The University of Vermont Health Network FY22 Budget Submission, Narrative, 3 (CVMC Submission); GMCB Deliberations III, 134. CVMC's 6.5% NPR/FPP increase exceeds the 3.5% NPR/FPP growth guidance set by the Board even after adjustments for COVID-19 vaccine clinic and testing revenue and adjustments for the provider transfers. CVMC's FY21 budget-to-projection variance is -3.8% (i.e., its FY21 projected NPR/FPP is 3.8% less than its FY21 budget), and as a result the hospital's FY22 budgeted NPR/FPP represents a 10.7% increase from its projected FY21 results. *See* Deliberations III, 134.

⁴ Changes to the actual charges vary by hospital and across service lines.

⁵ The Flex Monitoring Team is a consortium of researchers from the Universities of Minnesota, North Carolina-Chapel Hill, and Southern Maine, funded by the Federal Office of Rural Health Policy to evaluate the impact of the Medicare Rural Hospital Flexibility Grant Program (the Flex Program).

CVMC's senior leadership presented the FY22 budget to the Board at a public hearing held August 25, 2021. *See* CVMC FY22 Budget Presentation (Aug. 25, 2021) (CVMC Presentation), 1. On September 13, 2021, following GMCB staff presentations and deliberation, the Board approved CVMC's budget, as adjusted in this Order, with a reduced 5.72% increase in NPR/FPP for FY22 (which is a 3.74% increase after adjusting for the provider transfer), with commensurate reductions to operating expense growth in the aggregate in order to protect margins, and a 6.0% increase in average overall charges.

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

FINDINGS

COVID-19 Pandemic

1. COVID-19 (SARS-CoV-2) and its variants have significantly impacted hospital operations and budgets in Vermont, from the first reported case in March, 2020, through the current hospital budget review process. Vermont's Governor declared a state of emergency on March 13, 2020, which lasted through June 15, 2021, to address the ongoing threat from COVID-19. *See* State of Vermont, Executive Order 01-20 (March 13, 2020).
2. Vaccines to treat COVID-19 were authorized for emergency use by the U.S. Food and Drug Administration in December 2020 and were rolled out to states, including Vermont, which then started distribution of the vaccine on an age-based basis from late 2020 through 2021. Vermont leads the nation in vaccination rates, with approximately 77% of the eligible population fully vaccinated as of September 2, 2021.⁶ Despite its high vaccination rates, Vermont and its hospitals face continued challenges from COVID-19 and its emergent variants.
3. COVID-19 significantly affected hospital operations and finances in FY21. Systemwide, hospitals budgeted \$2.79 billion in FY21 NPR/FPP but projected \$2.69 billion for FY21 NPR/FPP at the time of submitting their FY22 budgets. *Deliberation II*, 7. The challenges hospitals faced creating FY21 budgets because of uncertainty and fluctuations resulting from the pandemic affected hospitals' budgeting process for FY22 also. *See* *Deliberation II*, 5.
4. Federal and state governments provided financial assistance to health care providers during the pandemic. Vermont hospitals received approximately \$191 million in COVID-19 related funding in FY20, and project approximately \$107 million in COVID-19-related funding for FY21 on a statewide basis. *Deliberations II*, 16. For FY22, only one hospital included any COVID-19 funding in its budget, in a total amount of \$200,000. *Id.*

CVMC Budget Submission

5. CVMC is a prospective payment system hospital with its primary location in Berlin, Vermont. CVMC is Vermont's third largest hospital. CVMC's FY22 submitted NPR/FPP

⁶ See Vermont Department of Health, COVID-19 Vaccine Dashboard, available at: <https://www.healthvermont.gov/covid-19/vaccine/covid-19-vaccine-dashboard>.

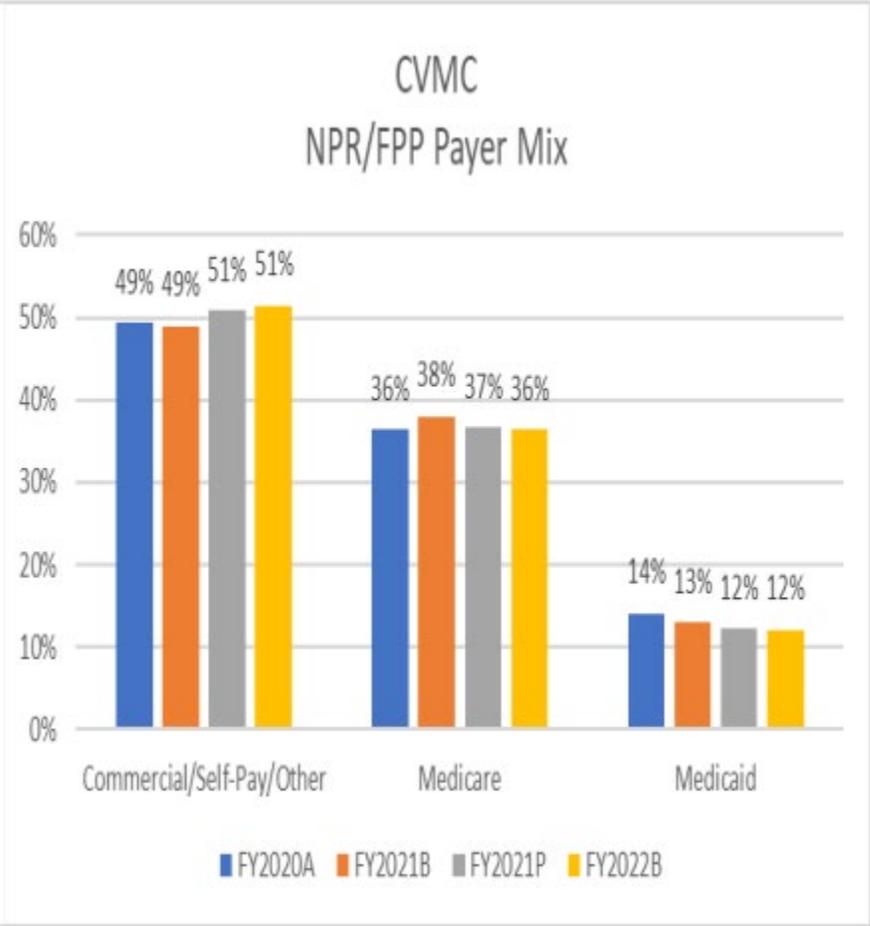
accounted for approximately 8.5% of the total submitted NPR/FPP for all 14 community hospitals in the State. *See* Deliberations III, 10. CVMC is a member of the University of Vermont Health Network (UVMHN), a health system that includes two other hospitals in Vermont—the University of Vermont Medical Center (UVMHC) and Porter Medical Center—and three hospitals in New York—Alice Hyde Medical Center, Champlain Valley Physicians Hospital, and Elizabethtown Community Hospital.

6. CVMC filed its FY22 budget submission on July 1, 2021, and a revised narrative on July 13, 2021. CVMC's budget requested a 6.5% growth in NPR/FPP, for a total of \$ 251,502,614. *See* Deliberations III, 134; CVMC Submission, Staff Analysis, Income Statement, 4. CVMC's FY21 budget-to-projection variance is -3.8%, meaning that CVMC's projected FY21 NPR/FPP is 3.8% less than its FY21 budget and that its budgeted FY22 NPR/FPP is 10.7% greater than projected FY21 NPR/FPP. *See* Deliberations III, 134. In order to normalize NPR/FPP growth and exclude the impacts of COVID-19, the Board trended NPR/FPP at a 3.5% rate from FY19 approved budgets to FY22 as a point of comparison to the hospital's proposed NPR/FPP. This hypothetical 3.5% NPR/FPP increase would result in an FY22 NPR/FPP of \$230,261,074, which is approximately \$20.9 million less than CVMC's budgeted NPR/FPP for FY22. *See id.*
7. CVMC's FY22 budget includes an adjustment for provider transfers from UVMHC to CVMC. *See* CVMC Submission, Narrative, 3; Deliberations III, 135. At the end of FY20, UVMHC transferred three practices to CVMC – general surgery, family medicine, and ENT practices. *See* FY 2021 Vermont Hospital Budgets Provider Transfers, 4 (May 19, 2021) (Provider Transfers). The transfers increased CVMC's NPR/FPP for FY21 by approximately \$4.5 million and decreased UVMHC's NPR/FPP by the same amount. Provider Transfers, 5. When adjusted for provider transfers, CVMC is requesting a 4.54% increase in NPR/FPP for FY22 over its FY21 budget. *See* UVMHC Submission, Narrative, 3.
8. On May 19, 2021, the Board unanimously acknowledged the provider transfers from UVMHC to CVMC, and instructed the hospitals to include appropriate adjustments in their FY21 budgets when submitting their FY22 budgets. GMCB Meeting Minutes, 2 (May 19, 2021).
9. CVMC's FY22 NPR/FPP increase from its FY21 budget includes rate effect (\$6.8 million), utilization (\$6.4 million), the acknowledged provider transfer (\$4.5 million), and reimbursement and payer mix changes (\$2.6 million). *See* Deliberations III, 136.
10. CVMC's FY22 budget assumes that overall volume will mostly return to pre-COVID-19 levels. *See* CVMC Submission, Narrative, 20. CVMC has budgeted its FY22 volumes in some areas to match or exceed its actual FY21 volumes, particularly in March and June, but in other areas it budgeted FY22 volumes lower than its FY21 volumes. *See* CVMC Presentation, Slide 62; Testimony of Al Gobeille, Hearing Transcript, Volume I, 93:9-95:12. Despite projecting FY21 NPR/FPP below its FY21 budget, CVMC budgeted a 12.1% increase in gross revenues from its FY21 budget as a result of utilization. *See* CVMC Submission, Appendices, Appendix 3 – Utilization.

11. At the time of its budget hearing, CVMC was seeing high demand and patient volume, particularly in its medical-surgical units and its ED. *See* Testimony of Al Gobeille, Hearing Transcript, Volume I, 23:17-24:8; Testimony of Anna Noonan, Hearing Transcript, Volume I, 72:17-73:6. That patient volume is largely a result of care that was delayed. *See id.*
12. CVMC is also seeing an increase in patient acuity, as patients arrive at the hospital sicker and requiring a higher level of care. *See* Testimony of Al Gobeille, Hearing Transcript, Volume I, 125:2-125:11; Testimony of Anna Noonan, Hearing Transcript, Volume I, 72:17-72:21.
13. In October 2020, UVMHC and UVMHN were the target of a cyberattack that affected operations at the UVMHN network hospitals. *See* Testimony of Al Gobeille, Hearing Transcript, Volume I, 29:5-30:10; CVMC Presentation, Slides 18-19.
14. CVMC's requested NPR/FPP increase of 6.5% from FY21 budget is slightly more than the systemwide total for all Vermont community hospitals of 6.4%. *See* Deliberations III, 11. CVMC's NPR/FPP increase from FY21 projections to FY22 budget is the third highest among Vermont community hospitals. *See id.* CVMC's compound annual growth rate for NPR/FPP from FY19 to FY22 is 6.5%, which is larger than the systemwide total of 4.7% for Vermont community hospitals during that period. *See Id.* For the past four years, including the FY22 budgets, CVMC's NPR/FPP compound annual growth rate is significantly greater (6.5%) than Rutland Regional Medical Center (1.8%) and Southwestern Vermont Medical Center (2.7%), which are similarly sized Vermont PPS hospitals. *See* Deliberations III, 147.
15. In FY18, FY19, FY20, CVMC's actual NPR/FPP has been less than its budgeted NPR/FPP (in FY18, a \$198.5 million budget compared to \$194.6 million actual; in FY19, a \$211.4 million budget compared to a \$208 million actual; and in FY20, a \$218 million budget compared to a \$193.8 million actual). Deliberations III, 139.
16. CVMC submitted its FY22 budget with a requested change in charge of 7.41%. *See* CVMC Submission, Narrative, 3; Deliberations III, 134. The change in charge is distributed evenly across inpatient, outpatient, and professional services. *See* Deliberations III, 140.
17. CVMC's requested 7.41% change in charge for FY22 is the second highest among Vermont community hospitals; the estimated weighted average is 6.0%. Deliberations III, 8. In its FY21 budget, CVMC requested an 8.5% commercial effective change in charge and received 7.0%. Deliberations III, 140. In its FY20 budget, CVMC requested and received a 5.9% change in charge. *Id.* CVMC's five-year (FY17-FY21) average approved commercial effective rate is 3.7%, and its median for that period is 2.5%. Deliberations III, 9.
18. CVMC's FY22 budget includes no expected increase from Medicaid reimbursement changes. *See* Deliberations III, 140; Testimony of Marc Stanislas, Hearing Transcript, Volume I, 53:10-54:6. Increases from Medicare are budgeted at approximately \$1.2 million, reflecting increases between 0% and 2.5%, and increases from commercial payers at \$5.8 million. *See* Deliberations III, 140.

19. On September 7, 2021, CVMC requested an increase in Medicaid reimbursement, noting that there are no inflation increases built into Vermont Medicaid’s FY22 budget even though the cost of treating Medicaid enrollees, as with other populations has increased. See Letter from Dr. John Brumsted to Department of Vermont Health Access Interim Commissioner Adaline Strumolo, 1 (September 7, 2021).

20. CVMC’s proposed FY22 budget includes the following allocation of NPR/FPP by payers:



See Deliberations III, 141.

21. The ratio of gross to net revenue collection rates for commercial to Medicare for CVMC is 161% under its FY22 budget, which is the third lowest among Vermont PPS hospitals. See Deliberations III, 145.

22. CVMC’s FY22 budget includes total operating expenses of \$266,233,915, an increase of approximately \$14 million, or 5.5%, over budgeted FY21, and approximately \$15.2 million more than projected FY21 operating expenses. CVMC FY22 Budget, Staff Analysis, Income Statement, 3-4. The increased operating expense from FY21 budget includes expense inflation (\$6.1 million), physician transfers (\$5.6 million), new staff positions (\$1.8 million), purchased services (\$1.3 million), and fringe (\$1.2 million). See Deliberations III, 137.

23. CVMC's operating expenses have grown from \$228.4 million in FY19 to a budgeted \$266 million for FY22. CVMC FY22 Budget, Staff Analysis, Income Statement, 3-4. Operating expenses were \$235.8 million for FY20 and \$251 million projected for FY21. CVMC FY22 Budget, Staff Analysis, Income Statement, 3. For the past four years, including the FY22 budgets, CVMC's operating expense compound annual growth rate is significantly greater (5.2%) than Rutland Regional Medical Center (2.0%) and Southwestern Vermont Medical Center (2.9%), which are similarly sized Vermont PPS hospitals. *See Deliberations III, 147.*
24. CVMC faces staffing challenges across the board, but particularly for nurses. *See Testimony of Anna Noonan, Hearing Transcript, Volume I, 80:13-81:5.* CVMC is exploring EB-3 visas for nurses to increase its staffing, and CVMC implemented partnership programs with local colleges to grow local talent and is seeing benefits from that program. *See Testimony of Anna Noonan, Hearing Transcript, Volume I, 81:6-82:11.*
25. For FY22, CVMC budgeted an operating margin of \$2,689,649, or 1.0%, and a total margin of 3.9%. CVMC FY22 Budget, Staff Analysis, Income Statement, 4. CVMC projects a -1.3% operating margin (equal to an operating loss of \$3,225,366) and a 4.7% total margin in FY21. CVMC FY22 Budget, Staff Analysis, Income Statement, 3. For FY20, CVMC had an operating margin of -0.6% (reflecting an operating loss of approximately \$1.3 million) and a 4.5% total margin. *Deliberations III, 139; CVMC FY22 Budget, Staff Analysis, Income Statement, 3.* As an operating margin benchmark for A rated hospitals based on rating agencies, CVMC cites a range of 1.5% to 2.8%. *See CVMC Presentation, Slide 23.*
26. CVMC received approximately \$25.3 million in state and federal COVID-19 stimulus and relief funds in FY20 and \$1.7 million in FY21. *See CVMC Presentation, Slide 16.* CVMC has not budgeted for any COVID-19 stimulus or relief funds for FY22. CVMC FY22 Budget, Staff Analysis, Income Statement, 4.
27. CVMC budgeted approximately \$10.3 million in revenue from 340B Drug Pricing Program. CVMC Submission, Staff Analysis, Income Statement, 4. In other revenue, CVMC is focused on two areas – specialty pharmacy, which is a new product line for CVMC, and a health assistance program. *See Testimony of Anna Noonan, Hearing Transcript, Volume II, 96:14-97:8.*
28. CVMC has been an active participant in Vermont's health care reform efforts, and CVMC will continue to participate in OneCare Vermont's Medicare, Medicaid, and commercial and self-insured ACO programs in FY22. *See CVMC Submission, Narrative, 31; Deliberations III, 32.*
29. CVMC budgeted approximately \$45.8 million of its FY22 patient services income paid in FPPs. *See Deliberations III, 13.* This represents 18.2% of CVMC's budgeted FY22 NPR/FPP, which is more than the systemwide total of 13.8% of NPR/FPP paid as FPP. *Deliberation III, 13.* For FY21, CVMC budgeted approximately \$45.5 million of its \$236 million NPR/FPP, or 19.3%, to be paid in FPPs. *See CVMC Submission, Staff Analysis, Income Statement, 3.*

30. CVMC receives fixed prospective payments under its Medicare and Medicaid ACO programs, but not commercial. *See* CVMC Submission, Appendices Workbook, Appendix 6 – Value-Based Care Participation. CVMC participates in the BlueCross BlueShield and MVP ACO programs, which have a spend target and then settle at the end of the year instead of receiving fixed prospective payments throughout the year. *See* Testimony of Rick Vincent, Hearing Transcript, Volume II, 61:11-62:2. CVMC indicated that it would participate in a commercial payer’s true FPP program if a commercial payer would provide an adequate program with actuarially-derived total cost of care targets that allows the hospital to have the portion of the premiums that would flow through the ACO to support care management. *See* Testimony of Dr. John Brumsted, Hearing Transcript, Volume II, 62:8-62:13.
31. CVMC’s budget anticipates 110.5 days cash⁷ on hand in FY22. CVMC FY22 Budget, Staff Analysis, Balance Sheet, 5. CVMC expects to have 112.3 days cash on hand at the end of FY21. *Id.* CVMC’s cash position for FY21 is projected to be better than it had budgeted for FY21 (108.3 days cash on hand) but less than its FY20 days cash on hand of 131.6. *Id.* CVMC’s days cash on hand is less than the Vermont median for PPS hospitals of 170.5, and less than the benchmarks for Northern New England and Northeast PPS hospitals. *See* Deliberations III, 26.
32. CVMC’s narrative, presentation, and other filed budget information comply with the Board’s FY22 hospital budget requirements.
33. 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

Our review of FY22 budgets comes during a challenging period for Vermont hospitals, which are struggling to manage the ongoing COVID-19 pandemic, care for a growing number of patients who deferred care during the pandemic and are now arriving at the hospital sicker, address significant staffing challenges, and cover the costs associated with inflation. The COVID-19 pandemic has placed significant strain on hospital operations, hospital finances, and the health care workforce. The pandemic has also created uncertain and highly variable hospital utilization, making it difficult for hospitals to budget accurately.

Hospitals also face significant challenges providing adequate staffing to handle demand. Staffing challenges are not new for hospitals,⁸ nor are the challenges limited to the State of Vermont, but staffing shortages have been exacerbated by the strain and other effects of the pandemic. Staffing shortages are playing out across the system in the form of higher costs for

⁷ The systemwide average for FY22 budgets is approximately 176 days cash on hand.

⁸ *See, e.g.,* GMCB Board Meeting January 30, 2019 on Health Care Workforce.

full-time providers, travelers, and other staff, employee burnout, and long patient wait times for certain services.

The cost-shift continues to be a serious concern facing Vermont community hospitals. Hospitals have generally budgeted no increase or only small increases for Medicaid reimbursements for FY22, which will not cover the cost of inflation, leaving hospitals to increase commercial rates more to cover that unreimbursed cost for public payers.

Based on our review, CVMC's presentation, staff analysis, deliberations on September 13, 2021, we approve CVMC's budget with the adjustments set out below. CVMC's submitted NPR/FPP growth exceeds the Board's guidance of 3.5%, even after adjusting for the provider transfers and COVID-19 testing and vaccination clinic exclusions. *See Findings, ¶7.* In the past few years, CVMC has set NPR/FPP budgets that it has not been able to meet. *See Findings, ¶15.* We are concerned about the same occurring this year, particularly because on a FY21 projection to FY22 budget basis CVMC's growth is the third highest in the state. CVMC's NPR/FPP compound annual growth rate, including its FY22 submitted budget, over the last four years is significantly greater than other similarly sized Vermont PPS hospitals. *See Findings, ¶14.* Additionally, CVMC's operating expenses are growing at a faster rate than other similarly sized Vermont PPS hospitals. *See Findings, ¶23.* We are concerned that CVMC's expenses are growing based on aspirational NPR/FPP budgets that are not met. Therefore, we reduce CVMC's 6.5% submitted NPR/FPP for FY22 to 5.72% (which, after adjusting for the acknowledged provider transfers, will be 3.74% and closer to the Board's NPR/FPP guidance) and require that CVMC make a commensurate reduction to its operating expense growth in the aggregate in order to protect margins.

Next, we reduce CVMC's change in charge from 7.41% to 6.0%. CVMC's submitted change in charge was the second highest in the state and, following FY21 where CVMC received a 7.0% charge increase, we believe it is too high. *See Findings, ¶¶14, 16, 17.* A 6.0% increase is still significant, but we believe it is justified by expense increases associated with inflation and pressures from a competitive labor market. *See Findings, ¶¶22, 24.* CVMC's days cash on hand is less than other Vermont PPS hospitals. *See Findings, ¶31.* Additionally, CVMC has a lower ratio of gross to net revenue collection rates for commercial to Medicare than similarly sized Vermont PPS hospitals. *See Findings, ¶21.* Based on those factors, we approve CVMC's budget with a change in charge of 6.0%

ORDER

Based on our findings and conclusions and the authority granted by Chapter 221, Subchapter 7 of Title 18, CVMC's budget is approved with the adjustments below for FY22 subject to the following terms and conditions:

- A. CVMC's FY22 NPR/FPP budget is approved with a reduced growth rate of 5.72% (which is 3.74% with adjustments for the acknowledged provider transfer), over its FY21 budget, with a total NPR/FPP of \$249,584,872 for FY22, with commensurate reductions to operating expense growth in the aggregate in order to protect margins.

- B. CVMC's charge increase is approved at not more than 6.0% over current approved levels.
- C. Beginning on or before November 20, 2021, and every month thereafter, CVMC shall file with the Board the actual year-to-date FY22 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 the hospital's FY22 year-to-date operating performance
- E. CVMC shall advise the Board of any material changes to its FY22 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, 2022, CVMC shall file with the Board, in a form and manner prescribed by GMCB staff, such information as the Board determines necessary to review the hospital's FY21 actual operating results.
- G. CVMC shall file with the Board one copy of its FY21 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, 2022, whichever is earlier.
- H. CVMC shall participate in the Board's strategic sustainability planning process.
- I. CVMC shall review the data and information in Mathematica's report Potentially Avoidable Hospital Utilization at Rural Hospitals⁹ regarding potentially avoidable utilization in their ED and inpatient settings, and hospitals will work with Board staff to potentially include these measures in non-financial reporting as part of the FY23 hospital budget review process, with the goal of developing strategies to reduce potentially avoidable utilization.
- J. CVMC shall timely file all forms and information required for provider acquisitions and/or transfers as determined by GMCB staff, if applicable.
- K. CVMC shall file all requested data and other information in a timely and accurate manner.
- L. 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.

⁹ See Mathematica, Potentially Avoidable Hospital Utilization at Rural Hospitals (August 11, 2021), available at: https://gmcboard.vermont.gov/sites/gmcb/files/documents/PotentiallyAvoidableHospitalUtilizationatRuralHospitals_Mathematica_BoardPres_20210811.pdf; see also Mathematica, Rural Health PAU Dashboard, available at: <https://rural-health.vrdc.mathematica-stg.net/landing>.

M. All materials required above shall be provided electronically, unless doing so is not practicable.

N. 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, 2021
Montpelier, Vermont

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

Filed: October 1, 2021

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).