

**Green Mountain Care Board**  
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October 1, 2021

**DELIVERED ELECTRONICALLY**

Brian Nall  
President and Chief Executive Officer  
North Country Hospital  
Prouty Drive  
Newport, VT 05855

Dear Mr. Nall:

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: Tracey Paul, CFO  
Mike DelTrecco, VAHHS  
Kaili Kuiper, HCA



STATE OF VERMONT  
GREEN MOUNTAIN CARE BOARD

**FY2022 HOSPITAL BUDGET DECISION AND ORDER**

In re: North Country Hospital ) Docket No. 21-008-H  
Fiscal Year 2022 )  
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**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).<sup>1</sup> 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%<sup>2</sup> 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 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.

North Country Hospital (NCH) requested a 7.3% increase in NPR/FPP, which remains a 7.3% increase in NPR/FPP after excluding revenue from COVID-19 clinics and testing, and a 4.9% overall average increase in charges. On September 1, 2021, following NCH’s budget

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<sup>1</sup> 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.

<sup>2</sup> 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.

hearing, GMCB staff presentations, and deliberations, the Board approved NCH's FY22 budget with a reduced NPR/FPP increase of 6.2% from its approved FY21 budget and a reduced overall change in charge of 3.3%.

## **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.<sup>3</sup> For FY22, the Board set an NPR/FPP growth guidance of not more than 3.5% over the approved FY21 budgets. FY22 Guidance, 5.

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<sup>3</sup> 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>.

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. 1, 2021) (Deliberations I). 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.

In addition, the Board reviewed each hospital’s proposed change in charge, which is the average amount by which a hospital increases its charges.<sup>4</sup> Notably, the respective payers — Medicare, Medicaid, and commercial — do not reimburse each hospital the same amount for the same services. For example, commercial payers can negotiate reimbursements with each hospital

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<sup>4</sup> Changes to the actual charges vary by hospital and across service lines.

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. Taking into consideration all adjustments, the Board reduce 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 I, 22-29. The financial metrics are compiled from data from Fitch Ratings Solutions, Inc. and Flex Monitoring.<sup>5</sup>

NCH filed its FY22 budget submission on June 30, 2021, its budget narrative on July 7, 2021, and a revised narrative on July 12, 2021. It requested an effective 7.3% increase in its NPR/FPP and a 4.9% average overall increase in charges. NCH FY22 Budget Submission, Narrative, 1-2 (NCH Submission); GMCB Deliberations I, 67. NCH's requested 7.3% NPR/FPP exceeded the 3.5% NPR/FPP growth guidance set by the Board even after adjustments for COVID-19 vaccine clinic and testing revenue. NCH's FY21 budget-to-projection variance is 3.9% (i.e., NCH's FY21 projected NPR/FPP is 3.9% greater than its FY21 budgeted NPR/FPP), and as a result the hospital's FY22 budgeted NPR/FPP represents a 3.3% increase from its projected FY21 results. Deliberations I, 67. The hospital's senior leadership presented the FY22 budget to the Board at a public hearing held August 19, 2021. *See* NCH FY22 Budget Presentation (Aug. 19, 2021) (NCH Presentation), 1. On September 1, 2021, the Board approved NCH's budget with a 6.2% increase in NPR/FPP for FY22 and a 3.3% increase in average overall charges, both reduced from NCH's submitted budget.

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

## **FINDINGS**

### **COVID-19 Pandemic**

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<sup>5</sup> 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).

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.<sup>6</sup> 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 I, 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 I, 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 I, 14. For FY22, only one hospital included any COVID-19 funding in its budget, in a total amount of \$200,000. *Id.*

#### NCH Budget Submission

5. NCH is a critical access hospital with its primary location in Newport, Vermont. NCH's FY22 submitted NPR/FPP accounted for approximately 3.0% of the total submitted NPR/FPP for all 14 regulated hospitals in the State. See GMCB PowerPoint, Preliminary Review of FY2022 Hospital Budget Submissions and Public Budget Hearing Exemptions, 14 (July 28, 2021) (Preliminary Review).
6. NCH filed its FY22 budget submission on June 30, 2021, its budget narrative on July 7, 2021, and a revised narrative on July 12, 2021. NCH requested a 7.3% growth in NPR/FPP, for a total of \$88,784,695. NCH budgeted \$42,121 for FY22 COVID-19 vaccine clinic and testing revenue, and after excluding that revenue from NPR/FPP, NCH's requested NPR/FPP remains a 7.3% increase in NPR/FPP, with a total of \$88,742,574. See NCH Submission, Staff Analysis, Income Statement, 4. NCH's FY21 budget-to-projection variance is 3.9%, which means that budgeted FY22 NPR/FPP is 3.3% greater than projected FY21 NPR/FPP. See Deliberations I, 67. 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 budget to FY22

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

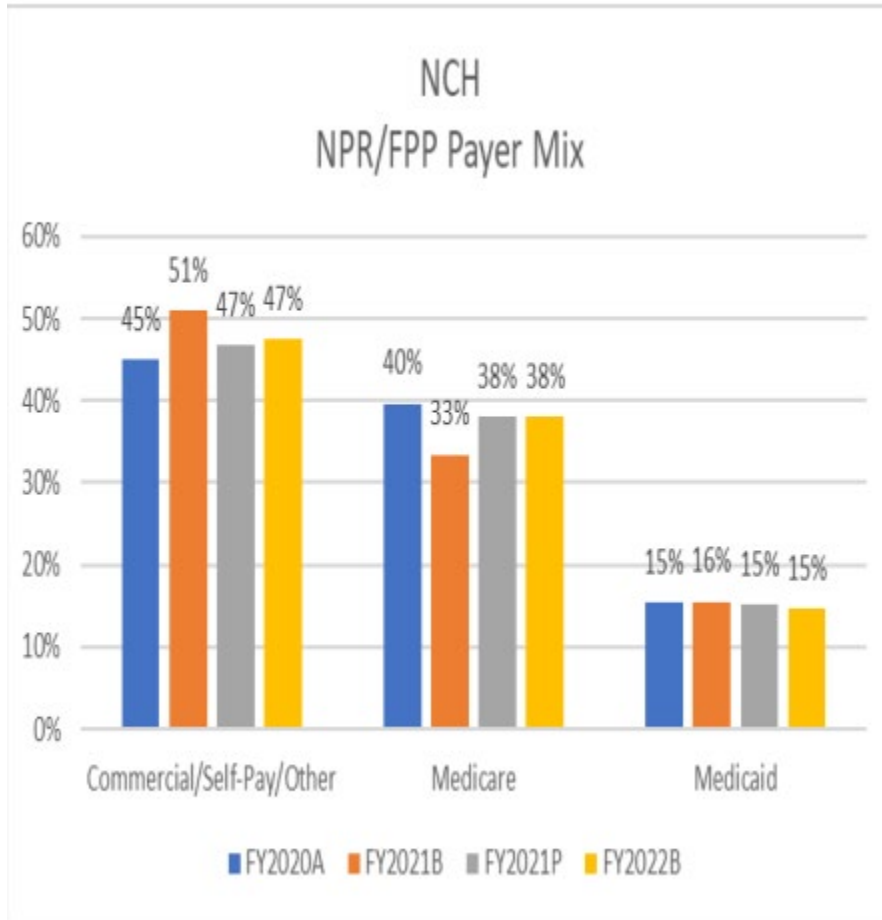
as a point of comparison to the hospital's proposed NPR/FPP. This hypothetical 3.5% NPR/FPP increase would result in a FY22 NPR/FPP of \$89,401,374, which is above NCH's budgeted NPR/FPP for FY22. *See* Deliberations I, 67.

7. NCH's FY22 NPR/FPP increase from its FY21 budget is driven by two primary factors: approximately \$3.1 million in rate effect and approximately \$3.2 million in utilization. *See* Testimony of Tracey Paul, Hearing Transcript, 6:23-7:3; Deliberations I, 68. NCH's volume returned to a pre-COVID-19 level in August-September 2020, which benefited the hospital's financial position for FY21. *See* Testimony of Tracey Paul, Hearing Transcript, 12:12-12:18. Emergency department utilization returned to pre-COVID 19 volumes during the summer of 2021. *See* Testimony of Brian Nall, Hearing Transcript, 17:19-18:3.
8. NCH's requested NPR/FPP increase of 7.3% from FY21 budget is greater than the 6.4% budgeted FY22 NPR/FPP increase for all Vermont community hospitals. *See* Preliminary Review, 16. NCH's compound annual growth rate for NPR/FPP from FY19 to FY22 is 3.3%, however, which is less than the 4.7% compound annual growth rate for all Vermont community hospitals during that period. *Id.*
9. NCH submitted its FY22 budget with a requested average overall charge increase of 4.9%. *See* NCH Submission, Narrative, 2-3. The charge increase reflects a 5.6% increase for hospital charges and no increase in physician practice charges. *See id.* The value of a 1% change in charge for NCH is \$559,390. Deliberations I, 72.
10. NCH's charge increase is driven by two components: a 3.3% increase for wages and employee health insurance and supply inflation, and a 1.6% increase for NCH's conversion costs to Cerner, a new electronic medical record system. *See* Testimony of Brian Nall, Hearing Transcript, 29:1-29:10, 42:13-42:19. The implementation of the new EMR system is expected to cost approximately \$700,000, which covers the conversion costs to the new system. *See* Testimony of Tracey Paul, Hearing Transcript, 8:18-8:23. The cost will be a one-time expense. *See* Testimony of Brian Nall, Hearing Transcript, 42:13-42:19.
11. NCH budgeted a \$950,141 increase related to higher Medicare reimbursements, which represents an increase of approximately 3.4% from FY21 Medicare payments, along with a \$2,134,778 increase expected from commercial payers due to its increased change in charge. *See* Deliberations I, 72; NCH Submission, Appendices Workbook; Appendix 1 – Reconciliation Table. NCH budgeted no increase for Medicaid reimbursement due to its increased change in charge. *See id.*
12. The ratio of gross to net revenue collection rates for commercial to Medicare for NCH is 186% in its FY22 budget. *See* FY 2022 Vermont Hospital Budget Board Deliberations (September 3, 2021), 139. NCH has the highest commercial to Medicare ratio of Vermont critical access hospitals. *See id.*
13. NCH's requested 4.9% change in charge for FY22 is less than the estimated weighted average for all Vermont community hospitals of 6.0%. Preliminary Review, 12. NCH's five



year (FY17-FY21) average approved change in charge is 4.0%, which is near the middle among Vermont community hospitals for that period. Preliminary Review, 13.

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



See Deliberations I, 73.

15. NCH’s FY22 budget includes total operating expenses of \$93,407,053, an increase of approximately \$4.6 million, or 5. 1%, over budgeted FY21, and approximately \$2.6 million more than projected FY21 operating expenses. NCH FY22 Budget, Staff Analysis, Income Statement, 3-4.

16. For FY22, NCH has budgeted an operating margin of \$1,875,602, or 2.0%, and a total margin of 2.8%. NCH FY22 Budget, Staff Analysis, Income Statement, 4. NCH projects a 2.0% operating margin and a 16.7% total margin in FY21. NCH FY22 Budget, Staff Analysis, Income Statement, 3. For FY20, NCH had an operating margin of 3.7% and a 7.8% total margin. Deliberations I, 71; NCH FY22 Budget, Staff Analysis, Income Statement, 3. The FY20 total margin was boosted by COVID-19 relief funds. See Testimony of Brian Nall, Hearing Transcript, 10:20-11:2. In FY19, NCH had a 1.9% operating margin and a 3.0% total margin. NCH FY22 Budget, Staff Analysis, Income Statement, 3.

17. NCH's increased operating expenses in FY22 fall into a few basic categories: compensation (about 31% of the increase), benefits (about 27%), , temporary staffing including locums and travelers (about 35%), contracts, purchased services, and EMR system conversion . *See* Testimony of Tracey Paul, Hearing Transcript, 7:24-9:2; NCH Submission, Narrative, 3. Overall, inflationary increases account for approximately \$1.9 million of operating expense growth. *See* Deliberations I, 69.
18. NCH faces staffing challenges in the current tight labor market. *See* Testimony of Brian Nall, Hearing Transcript, 16:15-17:18. NCH's use of temporary staffing (travelers and locums) has increased from an anticipated 9 temporary staff to a projected 22 by year end in 2021. *See id.* The competitive labor market has also pushed up salary expense. *See id.* The stress and fatigue from the COVID-19 pandemic has affected NCH and its staff as well. *See id.*
19. In terms of cost savings initiatives, NCH is pursuing savings in a few areas: it is part of the NEAH buying alliance and can access group pricing and has also worked to reduce supply costs within its supply chain; the hospital has focused on developing its own workforce, largely in nursing, to avoid higher cost temporary nursing staff; and the hospital is looking to leverage its new EMR system for changes in workflow and to reduce salary costs or reallocate to other areas. *See* NCH Submission, Narrative, 4; Testimony of Tracey Paul, Hearing Transcript, 45:12-46:18.
20. NCH has not budgeted for any COVID-19 stimulus or relief funds for FY22. NCH FY22 Budget, Staff Analysis, Income Statement, 4. NCH recognized approximately \$4.9 million in COVID-19 stimulus and relief funds in FY20, and projects \$144,622 for FY21. NCH FY22 Budget, Staff Analysis, Income Statement, 3.
21. For FY21, NCH budgeted approximately \$4.9 million in revenue from the 340B Drug Pricing Program, but as of the date of its budget submission projects a 19% decline in 340B revenues for FY21, to approximately \$3.8 million. *See* NCH FY22 Budget, Staff Analysis, Income Statement, 3-4; Testimony of Tracey Paul, Hearing Transcript, 15:25-16:14. NCH budgeted approximately \$4.5 million in other operating revenue for 340B in FY22, but NCH sees potential risks that pharmaceutical manufacturers will continue to withdraw from the program, reducing revenues. *See* Testimony of Tracey Paul, Hearing Transcript, 53:13-54:13; Testimony of Brian Nall, Hearing Transcript, 54:15-55:19.
22. For 2022, NCH plans to be a participating provider in OneCare Vermont's Medicaid and commercial programs. *See* Testimony of Tracey Paul, Hearing Transcript, 23:8-24:1. NCH budgeted for approximately \$10.6 million of its FY22 patient services income to be paid in FPPs. *See* Deliberations I, 12. This represents 12% of NCH's budgeted FY22 NPR/FPP, which is less than the systemwide total of 13.8% of NPR/FPP paid as FPP. *See id.* For FY21, NCH budgeted approximately \$6.4 million of its \$82.7 million NPR/FPP, or 7.7%, to be paid in FPPs. *See* NCH Submission, Staff Analysis, Income Statement, 3. NCH anticipates a significant increase in Medicaid fixed prospective payments from FY21 to

FY22, driven by an expanded Medicaid population. See Testimony of Tracey Paul, Hearing Transcript, 23:8-24:1.

23. NCH's budget anticipates 270.4 days cash<sup>7</sup> on hand in FY22. NCH FY22 Budget, Staff Analysis, Balance Sheet, 5. NCH expects to have 327.9 days cash on hand at the end of FY21. *Id.* NCH's cash position for FY21 is projected to be better than it had budgeted for FY21 (211.7 days cash on hand), and better than it was for FY19 or FY20 (220.5 and 318.1 days cash on hand, respectively). *Id.* NCH's days cash on hand is greater than the Vermont median for CAH hospitals of 148.6, above the benchmarks for Northern New England and Northeast CAH hospitals. See Deliberations I, 24. NCH would have the second highest days cash on hand among Vermont critical access hospitals, and the third highest overall among Vermont community hospitals for FY22. See *id.*
24. NCH's narrative, presentation, and other filed budget information comply with the Board's FY22 hospital budget requirements.
25. Approving NCH'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 NCH'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,<sup>8</sup> 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 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, NCH's presentation, staff analysis, and deliberations, we approve NCH's budget with the adjustments set out below. First, we approve NCH's overall charge

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<sup>7</sup> The systemwide average for FY22 budgets is approximately 176 days cash on hand.

<sup>8</sup> See, e.g., GMCB Board Meeting January 30, 2019 on Health Care Workforce.

increase at 3.3% from its FY21 approved budget. NCH requested a 4.9% change in charge from FY21; of that increase, 3.3% is attributable to wages and employee health insurance and supply inflation, and 1.6% is attributable to NCH's conversion costs to Cerner, a new electronic medical record system. *See Findings of Fact (Findings), ¶¶ 9, 10.* We do not believe one-time costs, such as conversion to a new EMR, should be covered by a rate increase since that rate effect would be included in the base and then compounded annually thereafter. NCH has a strong cash position that could cover one-time EMR conversion costs. *See Findings, ¶23.* NCH faces a competitive labor market, staffing challenges, inflationary pressures, and increased costs, and consequently we approve the 3.3% change in charge attributable to wages, health insurance, and supply inflation. *See Findings, ¶¶10, 17, 18.* Therefore, we approve a 3.3% change in charge from NCH's approved FY21 budget.

We approve NCH's budget with a 6.2% NPR/FPP increase from its approved FY21 budget. NCH requested a 7.3% NPR/FPP increase for a total FY22 NPR/FPP of \$88,784,695. *Findings, ¶6.* We adjust NCH's FY22 NPR/FPP consistent with the reduction of NCH's change in charge to 3.3%, which amounts to an \$895,024 reduction from NCH's submitted FY22 NPR/FPP. *See Findings, ¶¶6, 9.* NCH saw a return to pre-COVID-19 pandemic volumes in mid-2020 and is projecting a strong financial performance in FY21, with a projected 16.7% total margin for FY21. *See Findings, ¶¶7, 16.* We conclude a 6.2% NPR/FPP increase is supported by NCH's FY22 utilization and growth assumptions and the 3.3% overall charge increase. *See Findings, ¶¶6, 7, 8.* Therefore, we approve NCH's budget with a 6.2% NPR/FPP increase from its FY21 budget.

### **ORDER**

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

- A. NCH's FY22 NPR/FPP budget is approved at a growth rate of 6.2% over its FY21 budget, with a total NPR/FPP of \$87,889,671 for FY22.
- B. NCH's overall average charge increase is approved at not more than 3.3% over current approved levels.
- C. Beginning on or before November 20, 2021, and every month thereafter, NCH 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. NCH 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. NCH 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, NCH 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. NCH 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. NCH shall participate in the Board's strategic sustainability planning process.
- I. NCH shall review the data and information in Mathematica's report Potentially Avoidable Hospital Utilization at Rural Hospitals<sup>9</sup> 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. NCH shall timely file all forms and information required for provider acquisitions and/or transfers as determined by GMCB staff, if applicable.
- K. NCH 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.
- 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

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<sup>9</sup> 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](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>.

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

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