

STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

FY2023 HOSPITAL BUDGET DECISION AND ORDER

In re: Central Vermont Medical Center)	Docket No. 22-002-H
Fiscal Year 2023)	
_____)	

INTRODUCTION

This year the Green Mountain Care Board’s (GMCB or “the Board”) annual process to establish hospital budgets comes at a critical time for Vermont’s hospital and health care providers. The combination of the highest inflation rates in decades, tremendous staffing pressures and shortages, and the continued challenges of the evolving COVID-19 pandemic that have beset hospitals and stretched hospital operations and finances. These extraordinary pressures and continued uncertainty have also impacted hospitals’ ability to make assumptions upon which to build budgets. The budgets established by the GMCB this year reflect the unprecedented situation facing Vermont’s hospitals. Nine of Vermont’s 14 community hospitals are projecting negative operating margins for FY22, with a systemwide total of approximately \$63.2 million in operating losses. See Preliminary Review of FY2023 Hospital Budget Submissions and Public Budget Hearing Exemptions, 25-26 (July 27, 2022) (Preliminary Review).

In July, the Board began reviewing the Fiscal Year 2023 (FY23) budgets of Vermont’s 14 general (community) hospitals for compliance with policy guidelines and financial targets adopted by the Board. The financial benchmarks include net patient revenue and fixed prospective payment (NPR/FPP) growth of not more than 8.6% in total for FY23 and FY24 over the approved FY22 budgets. See GMCB, FY 2022 Hospital Budget Guidance and Reporting Requirements, 5 (Mar. 31, 2022) (FY23 Guidance).¹ Utilizing its authority under Act 85 of 2022, the Board decided in August to allow hospital’s NPR/FPP growth to be evaluated from the hospitals’ FY22 projections to FY23 budget. The assumptions built into the hospitals’ FY22 budgets were proving to be inaccurate – inflation in FY22, as one prominent example, exceeded what hospitals were anticipating in their FY22 budgets – and the Board concluded that using projections based on FY22 actual results provided a more realistic view of growth. The hospitals’ FY23 budget submissions reflected a systemwide average NPR/FPP growth request of 10.2%² over the approved, systemwide FY22 NPR/FPP. Preliminary Review, 14. Individual hospital NPR/FPP growth ranged from 4.5% to 16.1% on a budget-to-budget basis. Id. Individual hospital NPR/FPP growth on a projection-to-budget basis ranged from 1.8% to 15.7%. See FY 2023 Vermont Hospital Budget Deliberations, 31 (August 31, 2022)

¹ The hospitals’ FY23 budget materials, including their budget narratives and responses to questions, are available on the GMCB website at: <https://gmcboard.vermont.gov/FY23HospitalBudgets>. Transcripts of the hospital budget hearings and deliberations are available upon request.

² In accordance with the FY23 Guidance, hospitals may request “adjustments” to their approved FY22 NPR/FPP or FY23 request, which, if approved, are not factored into their total NPR/FPP increase. These adjustments most frequently reflect provider transfers but may also be driven by other accounting adjustments. See FY23 Guidance, 6.

(Deliberations I). Hospital budget submissions also reflected an overall estimated weighted average charge increase of 10.7%, with individual charge increases ranging from 3.5% to 17.8%. Preliminary Review, 10. The submitted charge increases would have resulted in an estimated weighted average commercial rate increase of 14.8%, with a range of approximately 2.9% to 19.9%. GMCB, FY 2023 Vermont Hospital Budget Debrief, 7 (September 28, 2022) (Approved Budgets).

Following public Board meetings, presentations by hospitals and GMCB staff, a special public comment period that closed on August 30, 2022, and a presentation and report on inflation from the State's economists, the Board deliberated on each hospital's budget using a decision tree approach and approved each hospital's budgeted NPR/FPP increase as submitted, resulting in an expected systemwide growth of 10.2%. The Board concluded that the hospitals' submitted NPR/FPP increase was warranted in light of the unprecedented challenges and the need to ensure access to care at Vermont's hospitals. The Board approved an estimated weighted average charge increase of 10.5%, with minimal change from the submitted change in charge, but the Board reduced the overall effective commercial rate increases by approximately \$31.7 million. The reduction in commercial rates were offset by projected increases in Medicare reimbursements and additional financial support from the Department of Vermont Health Access that was not known at the time hospitals submitted their FY23 budgets. See GMCB, Short Term Stabilization Drives FY 2023 Hospital Budget Decisions Long Term Hospital Sustainability Work on the Horizon (September 12, 2022).

Central Vermont Medical Center (CVMC) submitted its budget on July 1, 2022, requesting a 7.3% increase in NPR/FPP, a 10.0% overall change in charge, and an 14.52% effective commercial rate increase. On September 12, 2022 following GMCB staff presentations and deliberations, the Board approved CVMC's FY23 budget with a modification. FY 2023 Vermont Hospital Budget Deliberations, 29 (September 12, 2022) (Deliberations III)

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 FY23 budgets on March 31, 2022, after public meetings with Vermont hospitals, the Vermont Association of Hospitals and Health Systems, the Office of the Health Care Advocate (HCA) and other interested parties. *See* FY23 Guidance, 3, 4.³ The Board set an NPR/FPP growth guidance of not more than an aggregate of 8.6% for FY23 and FY24, combined, over the approved FY22 budgets. FY23 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, through March 31, 2023. Act 85 of 2022, §5(a).

Pursuant to its authority under Act 85, on August 31 the GMCB voted to allow each hospital's FY23 NPR/FPP to be reviewed based on its growth from the hospital's projected FY22 NPR/FPP, as provided by the hospital, in addition to comparing the NPR/FPP on a budget-to-budget basis, to determine how the hospital aligns with the Board's guidance. *See* 2023 Hospital Budget Deliberations (August 31, 2022) (Deliberations Hearing), Hearing Transcript 120:19-121:23. Using a hospital's growth from projected FY22 NPR/FPP to FY23 budgeted NPR/FPP provided a view of the hospital's growth that reflects the economic and operational pressures hospitals faced in FY22.

FY23 REVIEW PROCESS

Hospitals submitted their FY23 budgets to the GMCB on or about July 1, 2022 and presented their budgets at public GMCB meetings between August 15, 2022 and August 26, 2022. The Board and its staff reviewed and analyzed FY23 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 specific

³ The Board's FY22 Guidance is available at <https://gmcboard.vermont.gov/sites/gmcb/files/documents/FY23%20Hospital%20Budget%20Guidance-%20FINAL.pdf>.

quantitative and qualitative measures for patient wait times, budget-to-budget and projected-to-budget NPR/FPP growth rates, trended NPR/FPP growth rates forward from FY19 as a pre-pandemic base year, prior budget performance, requested changes in charges, and the estimated impact of changes in charge on commercial rates.

In addition, the Board commissioned the State's economists to provide a review and analysis of generally accepted measures of medical inflation, which the State's economists provided to the Board in a report⁴ and at a public meeting on August 31, 2022. The Board received and considered comments from the 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 10.2% over the systemwide FY22 budgeted NPR/FPP. Preliminary Review, 14. 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 approved each hospital's NPR/FPP growth as submitted. Approved Budgets, 5.

The Board also reviewed each hospital's proposed change in charge, which is the average amount by which a hospital increases its charges.⁵ A hospital's overall change in charge is not the same as the increase paid by commercial payers. The Board collected and reviewed from each hospital its estimated impact on commercial rate payers that would result from the hospital's budgeted change in charge. The respective payers — Medicare, Medicaid, and commercial — do not reimburse each hospital the same amount for the same services. See Deliberations, 18-20. 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. Hospitals generally did not budget for an increase in Medicaid reimbursement in FY23. After hospitals submitted their budgets and before the Board deliberated, increased Medicare reimbursement rates were announced, along with additional funding being made available by the Vermont Department of Health Access. See Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year 2023 Rates; etc. (CMS-1771-F), 87 Fed. Reg. 48,780 (August 10, 2022); Medicare Program: Hospital Outpatient Prospective Payment and Ambulatory Surgical Center Payment Systems and Quality Reporting Programs; etc. (CMS-1772-P), 87 Fed. Reg. 44,502 (proposed July 26, 2022); Letter from Andrea DeLaBruere, Commissioner, Department of Vermont Health Access (August 31, 2022).⁶

Vermont community hospitals continue to transition to a value-based payment system

⁴ A copy of the report is available at https://gmcbboard.vermont.gov/sites/gmcb/files/documents/GMCB_Report%2008.22.22_FINAL_withAppendix.pdf.

⁵ Changes to the actual charges vary by hospital and across service lines and by procedure.

⁶ A copy of the letter is available at https://gmcbboard.vermont.gov/sites/gmcb/files/documents/GMCB%20Letter_08-31-22.pdf.

focused on prevention, wellness, and health. Hospitals expected fixed prospective payments as a percentage of NPR/FPP for FY23 range from 0% to 21.7%. Preliminary Review, 19. Out of approximately \$3.3 billion NPR/FPP for all Vermont community hospitals in FY23, \$384 million, or 12%, is expected to be in the form of fixed prospective payments for FY23. *Id.* The percentage of NPR/FPP in the form of fixed prospective payment in FY23 is a decrease from FY22, which had approximately 14% of NPR/FPP in the form of fixed prospective payments. Preliminary Review, 18.

The Board also considered each hospital's extraordinary labor costs and investments, as well as the impacts of those costs and investments on the affordability of health care, in accordance with Act 85 of 2022. See FY23 Guidance, 6. Other factors considered by the Board in reviewing each hospital's budget included the impacts on Vermonters and employers in the commercial market, including self-funded employers, and considerations of Medicare and/or Medicaid payment changes on the commercial rate increases, impacts of Medicare and/or Medicaid payment changes and changes to rate of uninsured, hospital reimbursement variation data, cost, and cost coverage data, Data relative to payments to similar hospitals, relative costs for similar hospitals, and payer mix, and generally accepted measures of medical inflation. See *id.*

To organize and facilitate the consistent review of each hospital, GMCB staff presented a review of each hospital in the form of a decision tree that analyzed whether the hospital's proposed budget fell within the Board's NPR/FPP growth guidance, whether the hospital's budget assumptions were supported in its budget submission, and whether the hospital's charge request was supported by its submission. See FY23 Guidance, 5-6. To review the hospital's budget in the context of generally accepted measures of medical inflation and increased labor costs, the Board reviewed each hospital's compensation growth and other inflationary growth against benchmarks reviewed by the State's economists. See Deliberations, 27-28.

CVMC filed its FY23 budget submission on July 1, 2022. CVMC requested a 7.3% increase in its NPR/FPP from its FY22 budget, a 10.0% overall change in charge, and an 14.52% effective commercial rate increase. University of Vermont Health Network FY23 Budget Submission on behalf of Central Vermont Medical Center, Narrative, 8, (CVMC Submission); CVMC Submission, Appendices, Appendix 2; Deliberations III, 20. CVMC's FY22 budget-to-projection variance is -3.1% (i.e., its FY22 projected NPR/FPP is 3.1% less than its FY22 budget), and as a result the hospital's FY23 budgeted NPR/FPP represents a 10.7% increase from its projected FY22 results. See Deliberations III, 20. CVMC's 7.3% NPR/FPP projection-to-budget increase is within the 8.6% NPR/FPP growth guidance established by the Board.

The University of Vermont Health Network (UVMHN) and CVMC's senior leadership presented the FY23 budget to the Board at a public hearing held August 19, 2022. See UVM Health Network FY 2023 Budget Presentation on behalf of Central Vermont Medical Center (Aug. 19, 2022) (CVMC Presentation), 1. On September 12, 2022, following GMCB staff presentations and deliberation, the Board approved CVMC's budget with a 7.3% increase in NPR/FPP for FY23, as submitted, and a 10.0% increase in average overall charges, as submitted, and a commercial effective rate increase of 12.5%, modified from 14.52%.

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

FINDINGS

Systemic Factors

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.
2. 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 approximately \$128 million in COVID-19-related funding for FY21 on a statewide basis. All Vermont Community Hospitals, Fiscal Year 2023 Submitted Budget, 3 (All Hospital Summary). For FY22, hospitals projected approximately \$55 million in COVID-19-related funding, and for FY23, hospitals have budgeted a statewide total of approximately \$5 million in COVID-19 funding. *Id.*
3. Average hourly earnings increased 8.5% from June, 2021 to June, 2022, according to the U.S. Bureau of Labor Statistics (BLS). See U.S. Bureau of Labor Statistics, Employment, Hours, and Earnings from the Current Employment Statistics survey (National), Average hourly earnings of production and nonsupervisory employees, hospitals, seasonally adjusted (2020-2022), available at <https://beta.bls.gov/dataViewer/view/timeseries/CES6562200008>. Forecasts for personal income growth from 2022 to 2023 include an estimate of 4.5% from the Centers for Medicare and Medicaid Services and 5.3% from Moody's. Initial Economic Analysis and Summary Consensus Recommendations Associated with Green Mountain Care Board Budgetary Review Process, Economic and Policy Resources, Inc. and Kavet, Rockler & Associates, LLC (August 22, 2022), 42. Combined, a reasonable growth range for labor costs would be 13.0% to 13.8%.
4. Measures of anticipated inflation for 2022 to 2023 include forecasted growth of PCE-Services of 4.1%, a GDP Deflator of 4.4%, and a CPI-U of 4.5%. Initial Economic Analysis and Summary Consensus Recommendations Associated with Green Mountain Care Board Budgetary Review Process, Economic and Policy Resources, Inc. and Kavet, Rockler & Associates, LLC (August 22, 2022), 44-45. The different benchmarks are explained in the economists' report. See *id.*, 7-8.

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 by revenue; its FY23 submitted NPR/FPP accounted for approximately 8.2% of the total submitted NPR/FPP for all 14 regulated hospitals in the State. See Preliminary Review, 15.
6. On March 18, 2022, UVMHN, on behalf of CVMC, submitted a request to modify CVMC's approved FY22 budget by increasing the hospital's commercial rate by 10%. Following a

presentation by UVMHN on March 30, 2022, GMCB staff presentations and GMCB deliberations on April 6 and 8, 2022, the Board voted to approve a mid-year change in charge for CVMC of up to 2.7% above the hospital's approved FY22 budget. See Modification of FY2022 Hospital Budget Decision and Order, Docket No. 21-002-H (April 15, 2022).

7. CVMC submitted its FY23 budget on July 1, 2022. CVMC requested a 7.3% growth in NPR/FPP from its FY22 budget, for a total of \$269,231,389. *See* CVMC Submission, Staff Analysis, Income Statement, 3. CVMC's growth in NPR/FPP from its FY22 projections to FY23 budget is 10.7%. Deliberations III, 20. CVMC's FY22 budget-to-projection variance is -3.1%. *See* Deliberations III, 20; CVMC Submission, Staff Analysis, Income Statement, 3. Only three Vermont hospitals have projected FY22 NPR/FPP that is less than their budgeted FY22 NPR/FPP. *See* Deliberations III, 8.
8. CVMC's FY23 NPR/FPP increase from its FY22 budget includes a utilization increase of -1.0%. *See* Deliberations III, 21; CVMC Submission, Appendices, Appendix 3. CVMC increased its surgical volumes for FY22 year to date approximately 3.5% above the prior year. *See* CVMC Presentation, Hearing Transcript, Testimony of Anna Noonan, 85:12-85:20. CVMC has approximately 25% of its acute care beds occupied by patients that are waiting for placement in a long-term care facility. *See* CVMC Presentation, Hearing Transcript, Testimony of Anna Noonan, 86:1-86:7. Additionally, CVMC has had psychiatric patients boarding in its emergency department, for lack of available capacity in the State to place those patients, and that includes sometimes significant uncompensated care. *See* CVMC Presentation, Hearing Transcript, Testimony of Anna Noonan, 86:15-87:4. CVMC has seen days of significant emergency department volume recently. *See* CVMC Presentation, Hearing Transcript, Testimony of Anna Noonan, 128:6-128:20 ("some of our highest census days in our ED have been in the last month in my five-year tenure."). The range of increases for utilization assumptions in all Vermont hospital budgets was -2.7% to 8.2%, with a median of 2.1%. *See* Deliberations III, 21.
9. CVMC's FY23 NPR/FPP increase from FY21 includes compensation growth of 5.2%. *See* Deliberations III, 21; CVMC Submission, Appendices, Appendix 4. The range for the submitted budgets for all Vermont hospitals is -12.8% to 12.4%, with a median of 6.7%. *See* Deliberations III, 21.
10. CVMC's FY23 NPR/FPP increase from its FY22 budget includes other inflationary growth of -1.0%. *See* Deliberations III, 21; CVMC Submission, Appendices, Appendix 4. The range for submitted budgets for all Vermont hospitals is -2.7% to 14.7%, with a median of 2.1%. *See* Deliberations III, 21.
11. CVMC submitted its FY23 budget with a requested average overall charge increase of 10.0%. *See* CVMC Submission, Appendices, Appendix 2; Deliberations III, 20. CVMC's effective commercial rate increase is budgeted at 14.52%. *See* CVMC Submission, Narrative, 8. The range of commercial rate increases proposed by all Vermont hospitals was 2.9% to 19.9%, with a median of 8.0%. *See* Deliberations III, 21.
12. CVMC's requested 10.0% change in charge for FY23 is below the estimated weighted average of 10.7%. Preliminary Review, 10. CVMC's six year (FY17-FY22) median

approved change in charge is approximately 4%, with a range from approximately 1% to 9%. Preliminary Review, 11.

13. CVMC's FY23 budget assumptions include no increase in Medicaid payment rates for the hospital; CVMC's budgeted increase from Medicaid was approximately \$713,000. CVMC Submission, Narrative, 8-9, 25. CVMC budgeted a 4.4% increase for Medicare payment rate changes, which includes an assumed pickup of \$3 million in shared savings through the ACO. See CVMC Submission, Narrative, 25. CVMC's budgeted increase from Medicare was approximately \$1.5 million, and \$3 million from the Medicare ACO increase. See CVMC Submission, Narrative, 9.
14. CVMC included an analysis with a reasonable methodology showing how its change in charge is less than its total change in rates in an amount equal to increases in Medicaid and Medicare, at the time of its budget submission, and changes in bad debt and charity care. See CVMC Submission, Narrative, 9.
15. After submission of its FY23 budget, the amount of expected 2023 Disproportionate Share Payments (DSH) for CVMC decreased by approximately \$183,000, from approximately \$1.5 million in CVMC's submitted FY23 budget to an estimated \$1.4 million. See Letter from Andrea DeLaBruere, Commissioner, Department of Vermont Health Access (August 31, 2022); Deliberations III, 28.
16. In August, the Centers for Medicare & Medicaid Services (CMS) issued the final rule for FY23 rates for Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals (IPPS Rule), which affected PPS hospital Medicare inpatient rates. See Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year 2023 Rates; etc. (CMS-1771-F), 87 Fed. Reg. 48,780 (August 10, 2022). CMS also proposed an increase for Medicare reimbursements for outpatient services (OPPS Rule), though the rule has not been finalized. See Medicare Program: Hospital Outpatient Prospective Payment and Ambulatory Surgical Center Payment Systems and Quality Reporting Programs; etc. (CMS-1772-P), 87 Fed. Reg. 44,502 (proposed July 26, 2022). The final IPPS rule increases CVMC's estimated inpatient Medicare rate increase to 4.29%, from a budgeted 1.44% (a difference of approximately \$1.1 million), and the proposed OPPS Rule would increase CVMC's estimated outpatient Medicare rate increase to between 8.93% and 10.65%, from a budgeted 2.35% (a difference of approximately \$2.2 million to \$2.7 million). See Email from Rick Vincent to Sarah Lindberg re: follow-up (September 6, 2022); Deliberations III, 28.
17. CVMC's FY23 budget includes total operating expenses of \$284,962,279, an increase of approximately \$20.7 million, or 7.8%, over budgeted FY22. CVMC Submission, Staff Analysis, Income Statement, 3. CVMC's budgeted FY23 operating expenses are approximately \$3.3 million more than its projected FY22 operating expenses, however, because the hospital's projected FY22 operating expenses are 6.6% greater than its budgeted FY22 operating expenses. See *id.*

18. For FY23, CVMC budgeted an operating margin of \$2,873,971, or approximately 1.0%, and a total margin of 2.8%. CVMC Submission, Staff Analysis, Income Statement, 3. CVMC projects a -5.0% operating margin and a -6.7% total margin in FY22. CVMC Submission, Staff Analysis, Income Statement, 3. For FY21, CVMC had an operating margin of -1.0% and a 9.7% total margin. *Id.*
19. CVMC cites a severe labor shortage in a highly competitive and shrinking labor market along with extreme burnout of nurses, physicians, and staff, along with inflation, a lack of adequate post-acute, mental health and substance use treatment capacity, and other challenges, as critical concerns for FY23. See CVMC Submission, Narrative, 2; CVMC Presentation, 58. CVMC's "primary driver for our margin loss is the cost of labor." See CVMC Presentation, Hearing Transcript, Testimony of Anna Noonan, 84:4-84:5. CVMC has not been as successful hiring recent graduates as it has in the past, but the hospital continues to develop its talent pipeline through career pathways program for staff to work while also completing educational requirements for nursing licensure, international nurses, and a medical assistant program. See CVMC Presentation, Hearing Transcript, Testimony of Anna Noonan, 178:16-179:18; 84:2-85:11.
20. CVMC is targeting cost savings through a reduction of its use of traveling staff by continuing to build its internal talent development pipeline. See CVMC Submission, Narrative, 34-35. CVMC also cites the following as revenue enhancements that it is working on: "Revenue cycle optimization \$977K, value-based contract incentives \$411K, length of stay improvement initiative \$1.2M, Medicaid to commercial insurance shift \$2.5M." See *id.*
21. A source of other operating revenue for CVMC comes from the 340B Drug Pricing Program. CVMC budgeted approximately \$10.5 million in 340B revenue for FY23, which is a 1.0% decrease from the hospital's FY22 budget and more than the approximately \$9 million that CVMC projects for 340B revenue in FY22. See CVMC Submission, Staff Analysis, Income Statement, 3.
22. For 2023, CVMC plans to be a participating provider in OneCare Vermont's Medicare, Medicaid, commercial, and self-insured programs. See CVMC Submission, Narrative, 49-50. CVMC projects that approximately \$58 million of its FY23 patient services income will be paid in FPPs. See CVMC Submission, Staff Analysis, Income Statement, 3. This represents 21.7% of CVMC's budgeted FY23 NPR/FPP, which is more than the systemwide total of 12% of NPR/FPP paid as FPP. See *id.*; Preliminary Review, 19. For FY22, CVMC budgeted approximately \$45.7 million of its \$251 million NPR/FPP, or 18.2%, to be paid in FPPs. See CVMC Submission, Staff Analysis, Income Statement, 3.
23. CVMC's budget anticipates 80.9 days cash on hand in FY23. CVMC Submission, Staff Analysis, Balance Sheet, 4. CVMC expects to have 81.6 days cash on hand at the end of FY22. *Id.* CVMC's FY23 cash position is budgeted to be less than it had budgeted for FY22 (113.3 days cash on hand), less than it had in FY21 (114.1 days cash on hand), and less than it had for FY20 (131.6 days cash on hand). *Id.* CVMC's days cash on hand is less the Vermont median for PPS hospitals of 136, and below the benchmarks for Northern New England and Northeast PPS hospitals. See Preliminary Review, 44.

24. CVMC's narrative, presentation, and other filed budget information comply with the Board's FY23 hospital budget requirements.
25. 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

Vermont's hospitals continue to face significant, arguably unprecedented, strain from the combination of inflation, staffing and workforce challenges, and the impact of the evolving COVID-19 pandemic. The effect is being felt in hospitals' operations, their finances, and by their health care providers and other staff on a daily basis.

CVMC's FY23 NPR/FPP growth, when measured from its FY22 budget, is 7.3%, which complies with the Board's budget guidance. Findings ¶ 7. Because CVMC met the budget guidance, we reviewed its budget to confirm that its budget assumptions are supported and that its charge request is supported by its budget submission. CVMC is one of only three hospitals in Vermont to have projected FY22 NPR/FPP below its budgeted NPR/FPP, with a variance of -3.1%. Findings ¶ 7. CVMC's compensation growth from FY21 to FY23 is 5.2%, which is less than 13.8%, which is based on generally accepted data from BLS, CMS, and Moody's. See Findings ¶¶ 3, 9. CVMC's other inflationary growth, at -1.0%, is less than CPI-U, a generally accepted measure, and less than the median for all Vermont hospitals. See Findings ¶¶ 4, 10. CVMC's anticipated utilization change is below the median for Vermont hospitals. See Findings ¶ 8. CVMC's effective commercial rate increase, at 14.52%, is above the median of 8.0% for all hospitals. See Findings ¶ 11.

CVMC's budget does not include increases in Medicare rates were not known when CVMC submitted its budget, but which can be estimated based on subsequent proposed and final rules from CMS. See Findings ¶ 16. Factoring in an increase in Medicare IPPS Rule and the change in FY23 DSH to reduce CVMC's commercial rate increase without reducing its total NPR/FPP, CVMC's commercial effective rate increase would be reduced from 14.52% to 13.65%. See Findings ¶¶ 15, 16. Further reducing CVMC's commercial rate increase to adjust for the proposed Medicare OPPS (using the estimated minimum and maximum increase in the proposed OPPS Rule), CVMC's commercial rate increase would be reduced to between 10.18% and 10.9%. Recognizing the challenges that CVMC is facing, including high costs of labor, workforce shortages, and uncompensated care resulting from insufficient capacity in the community to place long-term care patients from the hospital and emergency department, we decided not to reduce CVMC's commercial rate increase to the lower amounts reflecting the proposed OPPS Rule. Findings ¶¶ 8, 19, 20. To limit the burden on commercial payers and in light of the additional payments from public payers, we modified CVMC's budget by reducing its effective commercial increase from 14.52% to 12.5%, and we approve CVMC's budget with a 7.3% increase in NPR/FPP from its FY22 budget, as submitted, and a 10.0% increase in average overall charges, as submitted.

ORDER

Based on our findings and conclusions and the authority granted by Chapter 221, Subchapter 7 of Title 18, CVMC's budget is approved as modified for FY23 subject to the following terms and conditions:

- A. CVMC's FY23 NPR/FPP budget is approved at a growth rate of 7.3% over its FY22 budget, with a total NPR/FPP of \$269,231,389 for FY23.
- B. CVMC's overall average charge increase is approved at not more than 10.0% over current approved levels, and CVMC's commercial effective rate increase is approved at not more than 12.5% over current approved levels.
- C. Beginning on or before November 20, 2022, and every month thereafter, CVMC shall file with the Board the actual year-to-date FY23 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 FY23 year-to-date operating performance
- E. CVMC shall advise the Board of any material changes to its FY23 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, 2023, 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 FY22 actual operating results.
- G. CVMC shall file with the Board one copy of its FY22 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, 2023, 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 GMCB 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 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.
- 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: September 30, 2022
 Montpelier, Vermont

s/ <u> Jessica Holmes, Interim Chair </u>)	
)	GREEN MOUNTAIN
s/ <u> Robin Lunge </u>)	CARE BOARD
)	OF VERMONT
s/ <u> Tom Pelham </u>)	
)	
s/ <u> Thom Walsh </u>)	

Filed: September 30, 2022

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: Russ.McCracken@vermont.gov).