

March 28, 2023

Owen Foster, Chair  
Green Mountain Care Board

Re: VAHHS Comments on FY 2024 Hospital Budget Guidance Proposal

Dear Chair Foster,

Thank you for the opportunity to comment on the fiscal year 2024 (FY 24) Hospital Budget Guidance.

We remain deeply concerned with aspects of the budget guidance. Specifically, the 8.6% net patient service revenue (NPSR) growth rate currently being deliberated, with only a .1% growth, will fall short of covering actual operating expense growth. Our costs for salary inflation, contract labor to cover workforce deficits, pharmaceutical increases specific to oncology and specialty drugs are all higher than ever before and with general inflation at 8%, purchasing basic supplies comes at staggering costs. It's important to note that these are national, even global, economic pressures, outside the control of our hospitals. Despite that, our hospitals are hard at work every day to manage these costs.

The following charts evaluates FY 24 NPSR set at the 8.6% revenue target over FY 22 Actuals for the system, and other operating revenue trended forward (without federal dollars), compared to total operating expense growth using a 5 year- average growth calculated at 6.2%. The five-year composite reflects both low and high inflation years which, based on current economic realities, is a conservative way to estimate FY 24 total operating expenses. **If the GMCB requires a NPSR growth rate of 8.6% over FY 22 this will result in a modeled (\$82m) operating loss to the system. This will further destabilize our hospitals and challenge them to hire and retain staff, meet access needs and invest in equipment, supplies and facilities.**

To validate our concerns, we also ran two additional scenarios shown below, one using the median percent and the other using compound annual growth rate (CAGR). Respectively the growth rates for operating expenses and losses were 4.9% which would result in a (\$39m) operating loss and 7.7% which would result in a (\$120.1m) operating loss. Any loss for FY 24 would be perilous to our financial recovery and will create added uncertainty as we evaluate future reform models.

<b>FY 2024 Estimated Budget with 8.6% NPSR Target over FY2022</b>			
	<b>Avg. % - 5 year</b>	<b>Median % - 5 year</b>	<b>CAGR % - 5 year</b>
FY 24 NPSR	\$ 3,275,651,581	\$ 3,275,651,581	\$ 3,275,651,581
Other Operating Rev*	\$ 451,422,984	\$ 449,133,341	\$ 467,455,096
FY 24 NPSR + Other Oper Rev	\$ 3,727,074,565	\$ 3,724,784,922	\$ 3,743,106,677
Total Operating Expense*	\$ 3,809,101,707	\$ 3,763,850,346	\$ 3,863,291,394
<b>Total Operating Margin</b>	<b>\$ (82,027,142)</b>	<b>\$ (39,065,424)</b>	<b>\$ (120,184,717)</b>
<b>Total Operating Margin %</b>	<b>-2.2%</b>	<b>-1.0%</b>	<b>-3.2%</b>

\*Source of modeled financial results: GMCB 2018 Actuals - 2023 Approved Budgets

We strongly urge you to adopt a revenue growth target that allows for hospital sustainability, as defined in Act 167. As stated in the VAHHS comment letter dated March 22, 2023, we are not asking for leniency; we are asking for a process that is predictable, flexible and grounded in the realities of what it actually costs to deliver care. Guidance that does not allow for appropriate cost coverage will further jeopardize our already fragile institutions. Vermont needs strong hospitals to meet current demand, to care for our friends, families and neighbors, to be there for future generations and provide high quality jobs that stimulate Vermont's rural economy.

Thank you, as always, for your consideration.

Sincerely,



Michael Del Trecco  
President & CEO, VAHHS