Green Mountain Care Board follow-up questions
UVM Health Network FY 2023 budget narrative submission

Questions to all hospitals:

1. FEMA recently extended the time period applicable for COVID-related relief in its public assistance program. What is the approximate magnitude of any potential relief and what considerations have you made in pursuing this potential fund source? If you have already applied, indicate any known timing or estimated funds you may receive.

UVMMC: UVMMC has submitted multiple FEMA projects for consideration. We have approximately $5.1M in projects that we placed into our FY 2023 budget numbers in anticipation of receipt of funds during FY 2023.

CVMC: Application is under review, but the CVMC application currently amounts to $4.2M.

Porter: Porter is currently reviewing allowable costs remaining after acceptance of other COVID-19 relief funding sources and expects to submit a FEMA application for over $2M before the upcoming September deadline.

It is important to note that FEMA funding is one-time and does not relate to our requested commercial rates as submitted in our FY 2023 budgets, as those requested rates address cost inflation and the year-over-year impact that exists from that inflation.

2. Describe the method(s) used to estimate the effect of inflation on your expenses. Include how the calculations are applied to expense categories (e.g. wage and salary, pharmaceuticals).

In our response to this question, please see the UVMMC figures below as an example.

For FY 2022 cost inflation above FY 2022 budget, it was limited to three categories:

Salary & fringe	$61,468,826
Medical/surgical supplies	$(1,292,743)
Pharmacy supplies (excluding retail pharmacy)	$ 5,933,843
Total FY22 cost inflation above FY22 budget	$66,109,926

The methodology used to calculate:
Salary & fringe – It was a two-step process: Calculate the Avg YTD May Actual staff salary per FTE compared to Avg FY 2022 staff salary per FTE. Take the difference between the two and multiply by the FY 2022 budgeted staff FTEs to get total salary amount of increased cost inflation. Then apply a fringe percentage of 22.6% to that salary amount.

Medical/surgical & pharmacy supplies utilized the same methodology: Calculate the cost to charge ratio of medical/surgical/pharmacy supplies to total inpatient and outpatient gross charges

for the FY 2022 budget and for FY 2022 YTD May Actual, take the difference and multiply by FY 2022 budget total inpatient and outpatient gross charges.

For FY 2023 cost inflation calculations:
$93,797,393 with retail pharmacy
$84,661,860 without retail pharmacy

Percentage estimates of anticipated cost inflation in FY 2023 were applied to specific expense categories, job codes, and expense lines to calculate the cost inflation impact.

For FY 2023 expense lines which are computed with the following formulaic calculation:
Expense = [percentage or rate] x [applicable revenue or expense line]

When it comes to calculating FY 2023 expense inflation, there may not be a change to the [percentage or rate] portion of the calculation. However, when there is a change related to cost inflation that impacts the [applicable revenue or expense line], cost inflation is determined by taking the [percentage or rate] component of the calculation and multiplying it by the cost inflation impact on the applicable revenue or expense line.

Some examples of these types of expense lines are employer FICA taxes, employer annuity contributions, and state provider taxes.

3. How does your organization evaluate the affordability of services for patients?

To answer this question, it is helpful to look to the Dartmouth Atlas of Health Care data which shows that Vermont is the lowest-cost state for Medicare per-capita expenditures. In 2019, our UVM Health Network Hospital Service Areas (HSAs) – Middlebury, Burlington and Berlin – were the top three least expensive HSAs in the country, when looking at total Medicare reimbursement. We included this information in our budget narrative and budget presentation last year and again this year.

4. Do you anticipate any changes to your budgeted fixed prospective payments for FY23?

Total FPP + OCV Value and Care Coordination Payments

	FY2022 Budget	FY2023 Budget
UVMMC	184,880,390	208,805,650
CVMC	45,669,416	58,431,148
PMC	20,716,994	18,066,702
Total	251,266,800	285,303,499

As we have noted in prior budget submission materials, just looking at the amount of fixed prospective payments does not adequately reflect the potential of downside risk.

Questions regarding UVM Health Network FY 2023 budget submission:

1. Provide a mapping from the custom categories used in Appendix I (Reconciliation) to the standard categories requested.

Appendix 1 Mapping:	
UVMMC/CVMC/PMC Submission	*Standard Categories*
FY2023 Cost Inflation in FY2023 Net Revenue Rates - All Payers	Rate Effect
FY2022 Add'l Cost Inflation in FY2023 Commercial Net Revenue Rates	Rate Effect
Adjustment for full year impact of Commercial FY22 Mid-Year Rate increase	Other (specify)
FY2023 Rate impact on Bad Debt / Free Care	Rate Effect
FY2023 Rate impact on Payer Administrative Write-Offs	Rate Effect
Disproportionate Share Payments (DSH)	Disproportionate Share Payments (DSH)
Utilization - FY2022 to FY2023 Increased Patient Volume prior to rate impact	Utilization (not factoring in change in charge request)
Fixed Prospective Payments	Fixed Prospective Payments
Provider Acquisitions/Transfers	Provider Acquisitions/Transfers
FY2022 to FY2023 Payer Categorization Shift prior to rate impact	Reimbursement/Payer Mix
FY2022 to FY2023 Reimbursement/Payer Mix prior to rate impact	Reimbursement/Payer Mix
FY2023 Estimated Shift from Medicaid population to Commercial prior to rate impact	Other (specify)
FY2022 to FY2023 Bad Debt/Free Care Adjustments prior to rate impact	Bad Debt/Free Care
FY2022 to FY2023 Payer Administrative Write-Offs Adjustments prior to rate impact	Other (specify)
FY2022 to FY2023 Budget Collection Rate Difference prior to rate impact	Other (specify)
ALOS Initiative	Other (specify)
CMI Initiative	Other (specify)
Epic Revenue Cycle Optimization	Other (specify)
Medicare GME Reimbursement Change	Other (specify)

2. All other non-operating revenue shows as a $33.7 million dollar loss in FY22 for UVMMC. What is driving this loss of revenue?

$29.2M reflects an accounting adjustment related to cyberattack insurance proceeds, which were originally recognized as a net asset transfer in the non-operating reporting section and should have been booked to other operating revenue. There is an offsetting entry in other operating revenue of $29.2M.

The remaining is combination of the loss from coordinated transport of $9.5M and $5.7M worth of unrealized gains related to interest rate swap arrangements.

3. UVMMC has invested ~$8.5 million to support housing for staff. Explain how this investment was considered in the context of the $126 million requested for revenue through commercial payment increases.

To be clear, UVMMC has invested $2.8M to support housing for staff, and is planning to invest another $5.6M, but has not yet made that investment.

Our investment in housing is being made to help improve our staff recruitment and retention efforts, which we anticipate will decrease our utilization of contract labor. The revenue rate increase that is included in our budget, which the commercial rate increase is a component of, is covering our per unit increase in cost inflation. Our per unit revenue rate needs to keep pace with our per unit cost, otherwise our financial stability will continue to deteriorate. In the FY 2023 budget we are assuming a 192 FTE increase in contract labor for UVMMC, CVMC and PMC (from 103 to 295), which is actually a 239 FTE decrease from where we are currently running. The 192 FTE increase is factored into our cost inflation, and thus our required revenue rate increase, as the per unit cost of those FTEs have gone up from the FY 2022 budget. If our investment in housing, combined with all other efforts tied to improving our recruitment and retention efforts, help to reduce our contract labor FTEs below what we have budgeted in FY 2023, next year's budget will include a negative cost inflation adjustment, tied to this decrease in contract labor, as our per unit cost will have gone down, which will lower the required revenue rate increase.

4. The UVMMC expense growth from FY22 to FY23 includes $57.3 million dollars associated with drugs. Since cost inflation is already accounted for describe what is driving this increase.

It important to understand and separate the two different types of pharmacy expenses which are combined in this category. This expense category includes pharmacy supplies, which are provided directly to the patient during their patient stay/encounter at the hospital or physician office. Pharmacy prescription expenses relate to when individuals may choose to get prescriptions filled through our outpatient or specialty pharmacies.

The growth excluding cost inflation related to pharmacy supplies provided directly to the patient related to episodes of care at the hospital or physician office is $3.2M, driven by volume and/or change in cost. This is offset by patient revenue (NPR), as those are billable items related to the services provided for episodes of care.

The other pharmacy expense is the cost of drugs sold to fill prescriptions for individuals who choose to use the retail and specialty pharmacy at UVMMC. This change is $54.1M, which is driven by volume. The revenue to offset this expense is flowing through other revenue.

5. Provide citation(s) and/or additional data to the following statement from page 7 in your narrative:

"This is because our patients and providers use fewer services than anywhere else in the nation. This is largely due to years of focus on the development of clinical pathways and implementation of best practice, resulting in the appropriate utilization of care."

Dartmouth Atlas of Health Care — Maps: Price-Adjusted Total Medicare Reimbursements per Enrollee (Parts A and B), by State and by HSA (2019)

Medicare Reimbursements - Dartmouth Atlas of Health Care

6. Provide more detail about the envisioned relationship between UVMHN's PHSO and OneCare Vermont. What is the anticipated timeline for the transition? What is the expected net effect of the PHSO on anticipated revenue and expenditures in FY23?

The UVMHN PHSO will be taking over some of the infrastructure services currently provided by OCV in supporting its members. As the UVMHN PHSO will have other clients besides OCV, the economy of scale will over time allow us to provide those services at a lower cost. The first transition that has been included in the FY 2023 UVMHN budget is analytics services. In the FY 2023 budget this is approximately $1.8M between transferred staff and software system investments allocated to work efforts previously performed by OCV. This expense will be completely offset by revenues associated with a service contract to provide those services to OCV. The cost to OCV to purchase analytics as a service from UVMHN will be equal to or less than their existing expense for both analytics platform and analytics staff.

7. Provide an up-to-date chart or graphic outlining the subsidiaries of the UVMHN hospitals, how they are controlled, who controls them and the budgeted transfers between them and the respective UVMHN hospitals for FY23.

Please see attached organizational chart. Budgeted transfers between affiliates are mostly related to specific service and provider agreements and the Network's shared services funding model, which is allocated to affiliates on a percentage of total revenues.