THE
University of Vermont
HEALTH NETWORK

September 5, 2023

Green Mountain Care Board
c/o The Honorable Owen Foster, Chair
144 State Street
Montpelier, VT 05602

Dear Chair Foster:

The Office of the Health Care Advocate (HCA) recently filed a letter to the Green Mountain Care Board (the Board) as part of the public comment process regarding Vermont hospital budgets for FY24. In their letter, the HCA offers a third-party contracted analysis of the University of Vermont Health Network's budgets and provides a series of recommendations for the Board to consider in its oversight of our hospitals.

Members of our Network team discussed many of these recommendations with the Board and HCA during our recent FY24 budget hearing on August 23, 2023. As the Board considers our FY24 budget proposals, we wish to further clarify our position on several of the HCA's recommendations and findings, including a) benchmarks for growth rates, b) gains from the sale of investments, c) our support for the University of Vermont, d) our New York partner hospitals, e) budget metrics, and f) the cost shift.

Growth Rate Benchmark

One of the HCA's primary recommendations asks the Board to:

…reduce all hospital budget increase requests that materially exceed the two-year Net Patient Revenue/Fixed Prospective Payment (NPR/FPP) guidance to Vermont's real GDP growth, which currently stands at 2.8%.

This recommendation is based on the financial analysis conducted by Dr. Nancy Kane. However, it misrepresents Dr. Kane's findings in one important way: What Dr. Kane recommended is a benchmark based on a *per capita* growth rate, which is consistent with the Vermont statute 18 V.S.A. §9372 that defines the purpose of the Board (see Appendix A). This statute also states that growth is to be measured on a per capita basis.

This is reminiscent of our Network's earlier discussions with the Board regarding the 4.3% All-Payer Model growth rate and how it has been used in budget deliberations and guidance. That rate is also supposed to be measured on a per capita basis. Our Network team provides

population estimates in our budget proposals to the Board so that the NPR/FPP growth can be measured on a per capita basis, consistent with relevant statutes.

The HCA is recommending approving or denying budget requests to the Board based on the 2.8% growth rate benchmark, but the question needs to be: *where are hospitals on a per capita basis*? And if a hospital is under that figure because they are caring for less people or have reduced access to services, is that preferred to a hospital that is caring for more people and has expanded access to services?

Sale of Investments

During the hearing to discuss the UVM Medical Center FY24 budget, the HCA asked about the $61M gain from our organization's "sale of investments". The HCA's subsequent letter to the Board again referenced this figure to justify their recommendation that our budget be reduced. Here, we wish to clarify two pertinent facts:

1. It is inaccurate to characterize our financial gains from the sale of investments as $61M because only a portion of this figure is actually reflective of such proceeds. In actuality, $10M of the $61M is the actual gain on the sale of our investments; the remaining $51M is unrealized gain on our investments. This unrealized gain will change as the market changes: it may go up, but it could also go down.

2. We used the $10M from the sale of our investments to fund our operations – to pay our bills, pay our employees, etc. – because we were not generating enough cash from our core operations (caring of our patients) to do so without an infusion of much-needed financial resources.

Our Network's Financial Standing

The HCA contends that the UVM Health Network is:

…on solid financial footing from a traditional financial metrics standpoint.

We do not agree that we are on solid financial footing, and the data we have presented to the Board for years supports that assertion. We are an A-rated organization whose days cash on hand and operating EBIDA margin is not consistent with A rating metrics. Our debt is at an A rating, and we have an average age of plant that is headed towards being outside the A range due to delayed investments. Critically, our rating agencies have made it clear that if our days cash on hand and operating EBIDA margin do not get into the A rating range, we will receive a rating downgrade. To further highlight that we are not on solid financial footing, nearly two thirds of academic health systems have a rating higher than ours.

Support for the University of Vermont

The HCA raises concerns about our relationship with and support for the University of Vermont (UVM) and its implications for our financial standing. The HCA letter offers our support for UVM as one example of how:

…hospitals have tremendous flexibility to modify their own budgets and how they operate. Many revenue and expense numbers are the result of strategic decisions fully within their control, not dictated by the Board.

We do not contest Dr. Kane's analysis of our support for UVM, which consists of academic support payments and a Dean's Tax that together total $16.9M in FY23 and $17.9M in the FY24 budget. We agree that this is a strategic decision, and one which we believe is vital to the strength of our state's health system and the care available to the people of our region. As the HCA rightly states, our academic medical center is staffed by some of the best nurses, technicians, and doctors in the world, many of whom are drawn to our health system because of our strong affiliation with a leading medical school and the research opportunities that provides.

Additionally, our financial support for UVM's Larner College of Medicine is offset by the care its residents provide within our health system and through savings in our recruitment and retention costs. We have approximately 350 residents across our health system. They take difficult shifts and work on-call, which helps to retain our board certified staff by reducing burnout. Some of these residents stay here and work long-term for our hospitals and clinics, which reduces some of the costs associated with recruitment. Most significantly, these residents yield savings because they are less expensive than the board certified physicians or advanced practice providers that would otherwise fulfill the duties that residents engage in.

There is no academic medical center in the country that does not support its medical school, and these amounts are reasonable given the size of our organization. The true value of our affiliation with UVM – both to our organization and to the State of Vermont – is immeasurable.

New York Partner Hospitals

The UVM Health Network was founded to address the simple reality that we, as rural health care providers, are stronger together than we are on our own. As the population in our region grows and ages on both sides of Lake Champlain, the pressures on hospitals and clinics are becoming more acute from every angle. Moreover, the impact of these pressures at one location has downstream implications at another, especially when it comes to emergency departments, patient transfers and appointments for specialty referrals. To both preserve and increase patient access to care, significant investments are needed to recruit and retain our talented workforce during a national shortage, offer the latest technological advances in medicine, and to maintain our physical and digital infrastructure. By partnering together, our ability to address these critical needs vastly improves, far beyond what would be possible to do alone.

We agree we have work to do to ensure all of our partner hospitals are on a strong financial footing, including our partner hospitals in New York. However, it is important to note that Vermonters are not subsidizing our New York partner hospitals.

Across our Network, we are focused on improvements that will impact some of our most pressing operational challenges and drive our near-term financial recovery. For example, in New York, we are leveraging our UVM Health Network Medical Group to share physicians, cover on-

call duties, and consolidate services at Champlain Valley Physicians Hospital. We have applied for Alice Hyde Medical Center to be designated as a Critical Access Hospital this year, an important change which will ensure more resources to continue meeting the emergency, inpatient care and outpatient service needs of the surrounding rural communities. At the same time, we have also had to make some difficult service-level decisions, such as closing the OB program at Alice Hyde. Meanwhile, we also need strong support from the New York State government to improve the situation.

With that said, we want to reiterate that the commercial rates at our Vermont partner hospitals in no way subsidize the financial challenges of our New York partner hospitals. We have clearly laid out for years that our requested Vermont commercial rate increases are based on the cost inflation of our Vermont hospitals only. The cost inflation of our New York hospitals drives the rate requests we seek from New York rate payers.

Codifying Clear Budget Metrics

The HCA also recommends codifying clear metrics to evaluate meaningful progress in forthcoming budget guidance for FY25 and beyond. In line with this sentiment, we look forward to continuing our work with the Board to refine the budget tool metrics for subsequent budget cycles, utilizing the budget guidance-setting process that is set forth in the Board's enabling legislation and rules. As we have for the past several years, we'll urge the Board to adopt externally-derived benchmarks and objective criteria drawn from credible national and regional health care data sources.

Cost Shift

Finally, we look forward to working with the Board to have a more inclusive discussion and presentation of evidence on the existence of the cost shift in our health care costs. This is not a thoroughly debunked myth, but rather we live in the reality where the cost of care is mal-distributed across payers. The very existence of this variation in reimbursement has significant implications for our health system and many others across the country.

Thank you for your careful consideration.

Sincerely,

Rick Vincent
Executive Vice President and Chief Financial Officer
The University of Vermont Health Network

Appendix A - 18 V.S.A. §9372

Title 18: Health
Chapter 220: Green Mountain Care Board
Subchapter 001: Green Mountain Care Board
(Cite as: 18 V.S.A. §9372)
§9372. Purpose
It is the intent of the General Assembly to create an independent board 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. (Added 2011, No. 48, §3, eff. May 26, 2011.)