



**SENT VIA EMAIL**

November 4, 2024

Owen Foster, J.D, Chair  
Green Mountain Care Board  
144 State Street  
Montpelier, VT 05602

**Re: Northwestern Medical Center FY2025 Hospital Budget Order – GMCB  
Request for Briefing Regarding Hospital Requests to Amend Condition B**

Dear Chair Foster:

1. Our request was a 7.0% increase over our FY2024 gross charge (B). Over our repeated objections, staff refused to present our request to the board as intended, and instead presented the request as a 6.4% increase to commercial payers (A). This 6.4% is the calculated *Aggregate Average* increase to commercial payers. The language in paragraph B of the FY2025 NMC Budget Order treats the 6.4% *Aggregate Average* commercial increase as the Maximum Allowed increase to any individual commercial payer.
2. Our request was a 7.0% increase to the listed chargemaster prices for all services provided by NMC.
3. We did not request a specific commercial rate change, we requested a change to chargemaster prices which will then flow through the contractual agreements for each commercial payer, determined by patient type and service type. The mix of patient type and service type for each individual commercial payer will result in a change in net payment rates from the commercial payer which could range anywhere from 0% (a payer with all services paid on a fee schedule that is not subject to price changes) and 7.0% (a payer where all services provided to their beneficiaries are paid on a percent of charge basis). Based on our budget assumptions for payer mix, patient type mix, and service mix, we estimated the *Aggregate Average* to be 6.4%.
4. There are mathematical impacts that result from the misuse of the values presented in the budget request as described in (3).

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The following definitions are used in the below tables:

Net Patient Revenue - Amount Paid by Commercial Payer to Hospital

Professional Fees - Net Paid to Hospital for Physician Professional Fees that are subject to a fee schedule (amount paid is predetermined and not affected by change in gross charge)

Hospital Fees - Net Paid to Hospital for Hospital Services that are paid as a percent of charge, and fully impacted by the change in gross charge

**Table 1: Before 7.0% Change in Charge**

	Net Patient Revenue	Professional Fees	Hospital Fees
Commercial A	480,000	30,000	450,000
Commercial B	385,000	35,000	350,000
Commercial C	35,000	10,000	25,000
Commercial D	20,000	5,000	15,000
Commercial E	10,000	500	9,500
Commercial F	1,000	-	1,000
<b>Total</b>	<b>931,000</b>	<b>80,500</b>	<b>850,500</b>

**Table 2: After 7.0% Change in Charge**

	Net Patient Revenue	Professional Fees	Hospital Fees
Commercial A	511,500	30,000	481,500
Commercial B	409,500	35,000	374,500
Commercial C	36,750	10,000	26,750
Commercial D	21,050	5,000	16,050
Commercial E	10,665	500	10,165
Commercial F	1,070	-	1,070
<b>Total</b>	<b>990,535</b>	<b>80,500</b>	<b>910,035</b>

**Table 3: Change in Net Patient Revenue**

	Before Increase	After Increase	% Change
Commercial A	480,000	511,500	6.6%
Commercial B	385,000	409,500	6.4%
Commercial C	35,000	36,750	5.0%
Commercial D	20,000	21,050	5.3%
Commercial E	10,000	10,665	6.7%
Commercial F	1,000	1,070	7.0%
<b>Total</b>	<b>931,000</b>	<b>990,535</b>	<b>6.4%</b>

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**Table 4: Change Required to Comply with Paragraph B (6.4% Change in Charge)**

	Before Increase	After Increase	% Change
Commercial A	480,000	508,800	6.0%
Commercial B	385,000	407,400	5.8%
Commercial C	35,000	36,600	4.6%
Commercial D	20,000	20,960	4.8%
Commercial E	10,000	10,608	6.1%
Commercial F	1,000	1,064	6.4%
Total	931,000	985,432	5.8%

Net Revenue Variance from Approved NPR Listed in Budget Order: (5,103) or -0.52%

Note that the Net Patient Revenue received for Professional Fees is the same before and after the change in charge is applied. In this example, all Hospital Fees are paid as a percent of charge and are fully impacted by the change in charge (i.e. a 7% increase to charges results in a 7% increase to payments).

For each individual commercial payer, the increase in Net Patient Revenue paid to the hospital is the weighted average of the impact of the change in charge by service type. For example, The baseline budget assumptions for Commercial A show that payments are comprised of \$450,000 (93.75%) Hospital Fees and \$30,000 (6.25%) Professional Fees. The impact of a 7% change in charge across all services to Commercial A is calculated as  $93.75\% \times 7.0\% + 6.25\% \times 0.0\% = 6.56\%$ , where 93.75% of the services will be paid at a 7.0% increase and 6.25% are paid on a fee schedule and no additional payment will result from the change in charge.

The service type mix is different for each individual commercial payer. This is why the convolution of Aggregate Average effect of the change in charge with the Maximum effect of the change in charge is problematic. We see in Table 3, that while the Aggregate Average is 6.4%, the net effect of the change in charge for Commercials A, E and F are anticipated to above the Aggregate Average. This will always be true, as an average cannot equal the maximum unless the service mix is equal for all payers, which it cannot be.

To fully comply with Condition B, we must ensure that the Maximum effect is below the value written in that condition. Since net revenue from Commercial F is 100% hospital fees (we have many small commercial insurances where this is the case), the change in charge cannot exceed the value written in Condition B (6.4%). Compliance with Condition B requires the values shown in Table 4. The Net Patient Revenue approved in the budget is the value shown in Table 3, as we an other hospitals submitted a budget treating the 6.4% Aggregate Average as the Average, and not as the Maximum. Compliance with Condition B, therefore requires that we accept an NPR budget that is lower than the amount approved in the budget order (red highlight).

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We will make reference to a portion of the Request for Language Revision sent by NMC to the Green Mountain Care Board, dated October 2, 2024. This is intended to clarify the limitations in the budget order that are directly related to the change in charge, and to clarify that the limits apply to the Overall (Aggregate Average) and not the Maximum per commercial payer:

“Please note that we are only referencing Item B from the order in this request, however, the revised language of ‘overall increase in commercial net patient revenue due to changes in price’ should be incorporated throughout the budget order document.”

Because the impact is different for each commercial payer, and because the actual results will differ from the budget assumptions for each payer, we strongly urge the board to return to the practice of regulating the Change in Gross Charge, as it is enforceable, predictable and easily implemented and verified.

5. Because the current order budget language is creating so much confusion and disagreement between hospitals and commercial payers, it is not reasonable to expect that hospitals can successfully negotiate more favorable discounts with commercial payers. This issue is causing gridlock.
6. We have completed contracts for all payers for FY25. However, a revision to the budget order language remains critically important because of the disagreement in interpretation between the hospitals and the commercial payers. Please do not assume that because a contract is complete, this issue is resolved. That would be incorrect.

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