

May 23, 2023

Green Mountain Care Board

Dear Chair Foster:

Thank you for taking up our May 3rd letter requesting reconsideration of the FY 2024 net patient revenue (NPR) growth guidance and opening the issue up to a formal public comment process. We appreciate the Green Mountain Care Board's consideration of this issue. In addition to the two letters previously submitted where we highlighted our significant concerns with the guidance as issued, below are comments from the Vermont Association of Hospitals and Health Systems on behalf of the 14 non-profit hospitals subject to the FY 2024 hospital budget guidance.

Chief among those concerns is that the FY 2024 NPR growth guidance is functionally 0% at a time when hospitals statewide have a -2% operating margin.

The Green Mountain Care Board's NPR growth guidance does not approve an 8.6% increase over one year, it allows a two-year 8.6% increase from FY 2022 actual results. Due to unprecedented demand for patient care and unprecedented costs that continue to strain hospital capacity, hospitals realized this increase in net patient revenue in their 2023 FY budgets and, even so, have been left with negative operating margins. As a result, the Green Mountain Care Board's NPR growth guidance is functionally 0.1% for FY 2024 even though 12 out of 14 hospitals reported negative operating margins as of February this fiscal year and half of Vermont's 13 rural hospitals are at risk of closing.¹

Following the NPR growth guidance harms hospitals and will endanger future reform efforts which depend on financially stable hospitals.

For years, every one of Vermont's hospitals have worked to avoid negative operating margins through cost-cutting measures, including renegotiating supply contracts, reducing contract labor, delaying or forgoing critical capital investments and equipment purchases and implementing hiring freezes. These past measures, coupled with no growth and no opportunity to reinvest this year, will necessarily impact hospitals' workforce and services. After years of negative operating margins, a 0.1% growth rate will also deplete cash, impact debt covenant ratios, reduce days cash on hand, and adversely affect other financial health indicators. Weakened indicators lead to higher interest rates and negative impacts to debt covenants and bond ratings, worsening long-term financial challenges. Additionally, following the NPR growth guidance will only exacerbate our already challenged capacity problems specific to access, wait times for services, emergency department overcrowding and inpatient bed availability.

¹ Health Care Quality & Payment Reform, Rural Hospitals at Risk of Closing (May 2023) at https://ruralhospitals.chqpr.org/downloads/Rural_Hospitals_at_Risk_of_Closing.pdf.

Following the NPR growth guidance could also have a profound long-term impact on the health care system as we enter discussions about hospital global budgets and potentially lock in a financial situation that the Green Mountain Care Board termed “unsustainable” in 2019. For a successful shift to a new reform model, hospitals require multiple years of financial stability.

Noncompliance with the NPR growth guidance could materially harm hospital services, financials, and reputation.

At its May 17th meeting, the Green Mountain Care Board urged hospitals to follow their fiduciary duty, regardless of the 0.1% NPR growth guidance, essentially encouraging hospitals to not comply with its guidance. This suggestion puts both the hospitals and the Board in an untenable position. Hospital budgets built to meet the hospital’s fiduciary duties will be publicly judged based on the current guidance. Hospitals will inevitably come under intense media, public and legislative scrutiny should the budgets significantly exceed the current guidance, even if their budgets are expertly crafted, reflect responsible growth and recognize the current economic reality. This will damage hospital reputations with resulting repercussions from patient opinion, new legislative proposals, and increased difficulty in staff and physician recruitment/retention and will certainly cause further deterioration in staff morale. In addition, should the Board fail to follow its own guidance, even if there are sound reasons to do so, it risks undermining its regulatory authority.

In its May 17th meeting, the Green Mountain Care Board also mentioned that the guidance is not legally binding, and it has approved budgets that have exceeded NPR growth guidance in the past. While technically true, the discrepancies between previous guidance and proposed and approved budgets up until 2020 have been lower than a percentage point up and demonstrate the Board tends to hew closely to its own guidance.

SYSTEM PERFORMANCE	2018*	2019*	2020	2021	2022	Avg. Var.	Med. Var.
GMCB Established NPR/FPP Growth*	3.4%	3.2%	3.5%	3.5%	3.5%	3.4%	3.5%
<i>System Submitted</i>	3.6%	2.9%	4.5%	3.3%	6.4%		
Variance Established to Submitted	0.2%	-0.3%	1.0%	-0.2%	2.9%	0.7%	0.2%
<i>System Approved (w/adjustments)</i>	3.0%	2.1%	4.3%	2.7%	6.2%		
Variance Submitted to Approved	0.6%	0.8%	0.2%	0.6%	0.2%	0.5%	0.6%
<i>Variance GMCB Established Growth to Approved</i>	-0.4%	-1.1%	0.8%	-0.8%	2.7%		
*NPSR Added for healthcare investments	*.4% for healthcare investments	*.4% for healthcare investments					

Even with the pandemic, the largest variance between the NPR growth guidance and the approved budget systemwide was only 2.7%. This year, with NPR growth guidance of effectively 0.1%, hospitals may exceed the guidance by 8 percent or more, creating a much wider range of potential cuts between the proposed and approved budget.

Adding to the uncertainty for hospitals is how they will manage if the Board cuts hospital budgets by multiple percentage points – far more than past reductions. Hospitals will have only two weeks between September 15th, when the budget orders are finalized, to October 1st,

when the fiscal year starts, to enact cost-saving measures. If cost-saving measures are not put into place, hospitals are at risk of an enforcement action. The Green Mountain Care Board can conduct an independent review of hospital performance under the budget “at any time,” and hospitals that continue to knowingly violate budget orders are subject to an administrative penalty of \$100,000 or one-tenth of one percent of the gross annual revenues of the hospital.² These are very real financial consequences for hospitals if they cannot reduce services or costs in this very short time.

FY 2024 is an opportunity to reset and base budgets in current economic reality.

The Green Mountain Care Board and hospitals have both acknowledged that it will be “difficult for many to achieve” the FY 2024 NPR growth guidance.³ As outlined above, this NPR growth guidance if not modified or amended as requested, will result in real consequences such as reputational damage or reduced access to hospital services. If the Green Mountain Care Board is urging hospitals to meet their fiduciary duty instead of following the NPR growth guidance, the purpose of the guidance comes into question. The fact is, FY 2024 NPR growth guidance of 0.1% is not grounded in current financial reality and cannot be justified.

Because the Green Mountain Care Board is urging hospitals to meet their fiduciary duties, this is an opportunity to reset the budget process and base it in the current economic reality. To that end, VAHHS urges the Green Mountain Care Board to look at each hospital budget objectively, without ties to an arbitrary benchmark, and to take one of the following actions:

- Utilize NPR growth guidance that supports positive operating margins for all hospitals
- Stipulate to non-enforcement of the FY 2024 Actual Budgets
- Waive the NPR growth guidance and allow hospitals to present budgets that meet their fiduciary duties as the Green Mountain Care Board continues to work with stakeholders on more appropriate budget metrics and benchmarks.⁴

Thank you again for your attention to this important matter.

Sincerely,



Michael Del Trecco
President and Chief Executive Officer, VAHHS

² Green Mountain Care Board Rule 3.000: Hospital Budget Review, § 3.401 (2013) & 18 V.S.A. 9456(h)(2)(A).

³ Fountain, Kristen, “Higher costs led to big hospital system losses in Vermont in 2022,” VTDigger, Mar 30, 2023 at <https://vtdigger.org/2023/03/30/higher-costs-led-to-big-hospital-system-losses-in-vermont-in-2022/>

⁴ Green Mountain Care Board Rule 3.000: Hospital Budget Review, §3.5000(a) (allowing the Green Mountain Care Board to waive any rule “in order to prevent unnecessary hardship or delay, in order to prevent injustice, or for other good cause.”).