



March 19, 2021

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

Dear Chair Mullin:

Thank you for providing us an opportunity to comment on the proposed budget guidance discussed by the Board at its public meeting on Wednesday, March 17. We appreciate the Board's willingness – clearly evident in the robust exchange of ideas at the meeting – for flexibility in this year's hospital budget review process in light of the once-in-a-lifetime challenges created by the COVID-19 pandemic. We also appreciate the partnership of the Health Care Advocate to work with VAHHS and Vermont's hospitals in this year's budget process, in an effort to reduce administrative burden during this critical time, while still accomplishing important and necessary data collection.

The Vermont hospitals of the UVM Health Network support the general approach proposed by Board member Holmes, with apparent support from other Board members, at the meeting. In recognition of the inability of hospitals or the Board to accurately predict patient volumes in FY 2022, as well as the unusually wide differences among Vermont hospitals this year, the Board should not set a ceiling on either net patient revenue (NPR) or rate growth for FY 2022. Instead, subject to some parameters discussed more fully below, each hospital should be required to justify its own unique NPR and rate needs, without reference to a predetermined ceiling that will likely hold little meaning when it is being applied to individual hospitals next September.

We also support the notion of allowing hospitals to take advantage of presumptive approval, along with exemption from the budget hearing process, if their budgets seek NPR rate increases below a threshold that reflects the inflationary pressures they face. We would not, however, support requiring hospitals to meet a similar predetermined "presumptive approval threshold" with respect to commercial rate increases. For the reasons set forth in our letter on March 15, we believe that each hospital's commercial rate is a mathematical function of factors, including anticipated patient volume as we emerge from a pandemic, that are unique to each hospital, thereby precluding a rational one-size-fits all threshold.

If the Board accepts this proposal, we also believe it is imperative that it identify the criteria by which the non-presumptively-approved hospital budgets will be judged. Those criteria should include: a forward-looking focus regarding hospital financial strength related to margins; necessary liquidity levels (days cash on hand); and appropriate debt structures (debt to cap ratio). These are critical measurements hospitals use to assess and safeguard capacity to meet future patient care needs and necessary investments while maintaining financial stability, so as not to put essential health care services at risk of leaving Vermont. Measuring budgets by these criteria also allows hospitals to ensure essential financial strength to respond to any major health crisis or unforeseen event. Each of these criteria should be drawn from credible national and regional health care data sources, where applicable. In the end, hospitals need to be

able to earn the revenue necessary to allow them to serve their communities, meet their expenses (many of which rise each year due to factors beyond their control), and to produce a margin sufficient to make the investments necessary to continue to provide high-quality care into the future – no more and no less. All of the criteria chosen should be designed to ensure this result.

In order to further streamline the budget process for the non-presumptively-approved hospitals, the Board should also limit the components of the required budget narrative, the Board's and staff's follow-up questions, and the hearing presentations to those items that will illuminate the factors that are relevant to the Board's determination.

In their budget narratives, hospitals should:

- Justify to the Board the NPR/FPP they are requesting for FY 2022;
- Justify to the Board the commercial rate necessary for FY 2022, including components of the commercial rate increase;
- Discuss the hospital's expense base;
- Discuss how all three aforementioned components relate to the hospital's margin;
- Include value-based care participation in the required financial workbooks, rather than in the budget narrative (regarding Section D of the budget guidance, page 9); and
- Include the information requested for capital investment cycle (Section E of the budget guidance, page 10).

In their budget hearing presentations, hospitals should:

- Justify to the Board the NPR/FPP they are requesting for FY 2022;
- Justify to the Board the commercial rate necessary for FY 2022, including components of the commercial rate increase;
- Discuss the hospital's expense base;
- Discuss how all three aforementioned components relate to the hospital's margin; and
- Discuss which services will be eliminated, if the submitted FY 2022 budget is not approved.

While we strongly support FY 2022 budget guidance premised on the model articulated above, we continue to oppose in equally strong measure the following proposals that remain under consideration by the Board:

- **GMCB expense oversight:** For the reasons we articulated in our March 15 letter, and which many other hospitals and Board members seconded at Wednesday's meeting, we ask the Board not to adopt any policy that would purport to give the Board the ability to set or adjust the expenses, rather than the revenue, of hospitals. The Board should strike the proposed expense setting language from both the draft guidance and draft enforcement policy under consideration.
- **Punitive action based on last year's approved budgets:** Nor should the Board adopt guidance that imposes a special, lower exemption threshold (or ceiling) on those hospitals that received NPR increases above last year's 3.5% guidance. As we indicated in our March 15 letter, none of the revenue increases sought by the UVM Health Network's Vermont hospitals last year were COVID-19-specific; rather, they were intended to place those hospitals back on a path to financial stability, regardless of the pandemic. Those hospitals that required and were granted greater than 3.5% revenue increases last year should not be automatically penalized this year.

Budget guidance such as what we have suggested above would allow the Board and the UVM Health Network's Vermont hospitals the opportunity to chart a successful course through this extraordinary year. It would not, however, be a substitute for engaging in the longer term collaborative work necessary to reform the hospital budget, ACO budget, and insurance rate setting processes, and to bring all three into sync with unified processes and supportive goals – an aligned regulatory system that produces more

predictable year-over-year results that serves patients, Vermont's stated health care goals, and hospitals well. As we have indicated many times before, we remain eager to engage with you in that hard but important work.

Sincerely,

A handwritten signature in black ink, appearing to read "John R. Brumsted". The signature is fluid and cursive, with the first name "John" being the most prominent.

John R. Brumsted, MD
President and Chief Executive Officer
The University of Vermont Health Network