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**TO:** Donna Jerry
**FROM:** Gregory Flicek
**SUBJECT:** CONFIDENTIAL-UVMMC Development of Outpatient Surgery Center, GMCB-004-23con
**DATE:** May 1, 2024

On April 25, 2024, Green Mountain Care Board (GMCB) received a letter from the University of Vermont Medical Center, Inc. (UVMMC) responding to the assessments prepared by consultants to the GMCB. This letter is intended to clarify sections within UVMMC's letter related to Ascendient's assessment.

> **3. UVM Medical Center agrees with Ascendient that it will incur additional expenses to compensate surgeons for the additional volume of cases they will perform after the OSC opens.** Detailed response included on pages 9-10 of UVMMC's letter.

As outlined above, UVMMC agreed with Ascendient that the incremental pro forma should include additional surgeon compensation for performing the incremental outpatient surgical cases. As a result, UVMMC provided a revised pro-forma on page 10 of its letter. This revised pro-forma added a Physician RVU expense which totaled $14.4 million in cumulative expenses for the first five years. All other revenue and expense line items remained the same as the pro-forma provided in response to Q.002 on June 15, 2023.

Originally, the OSC was expected to contribute $42.6 million in additional operating margin cumulatively over its first five years, which translated to $41.9 million in additional cash flow during the same period.[1] The revised pro-forma reduces the cumulative operating margin and cash flows by the $14.4 million in physician RVU expenses. The OSC is now expected to contribute $28.2 million in operating margin and $27.5 million in cash flow cumulatively over its first five years.

> **2. The reimbursement adjustment included in the incremental pro forma for cases that will shift from the Main Campus and Fanny Allen Campus ORs to the OSC is not understated.** Detailed response included on pages 7-9 of UVMMC's letter.

On page 7 of the Assessment of UVMMC's CON Application for a New OSC in Burlington Volume II: Financial Analysis, it was expected that the cumulative HOPD-to-ASC adjustment would be a [redacted] and it was concluded that the adjustment appeared low. UVMMC disagreed with Ascendient's calculations for two reasons:

[1] Q.002 Financial Tables provided June 15, 2023.

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First, UVMMC disagreed with the payor mix used by Ascendient in its analysis and stated the payor mix split should have been 75 percent commercial and 11 percent Medicare for outpatient cases based on the figures in its response to Q.009, Q.10 from February 27, 2024.

Second, UVMMC clarified its response to Q.009, Q.9 by stating that the [redacted] reduction in commercial reimbursement represents all OSC cases, both shifted and incremental (relative to what UVMMC would be paid for these cases at Fanny Allen or the Main Campus), instead of just for shifted cases. It further stated that the commercial reimbursement adjustment for the subset of shifted cases is [redacted].

On page 9 of its letter, UVMMC recalculated the estimated adjustment at [redacted] which is consistent with the adjustment in its application.

Upon review of UVMMC's statements, it was noted that on page 2 of UVMMC's response to Q.009, Q10, the outpatient utilization was $2,935,046 (15.8% of total) for Medicare and $12,572,680 (67.6% of total) for commercial. These percentages differ from both the original Ascendient calculation (28 percent Medicare and 55 percent commercial) and the updated UVMMC calculation (11 percent Medicare and 75 percent commercial). Further, roughly 40 percent of OSC outpatient cases are incremental new while 60 percent will be shifted to the OSC. It is still unclear how an overall adjustment of [redacted] for shifted cases which represent a higher proportion of volume. In the original assessment, [redacted] adjustment was utilized for insurance patients based on the range provided by UVMMC. When evaluating the operating margin of the OSC, selection of a higher rate is conservative when evaluating financial feasability.

If Ascendient's original calculation is updated to reflect the 15.8 percent Medicare and 67.6 percent commercial payor mix, it yields a [redacted] adjustment based on the following:

[redacted]

If UVMMC's most recent calculation is updated to reflect the 15.8 percent Medicare and 67.6 percent commercial payor mix, it yields an [redacted] adjustment as follows:

[redacted]

The range of potential adjustments is [redacted] The adjustment currently used in the application, 6.3 percent, generates a cumulative $16.1 million adjustment over the five-year period. If the adjustment percentage is increased to [redacted], it would reduce total operating revenue [redacted]. Given that the current operating margin for the OSC is $28.2 million as discussed above, the OSC would still generate a cumulative five-year operating margin of [redacted].

Sincerely,

Gregory Flicek
Senior Manager