Rutland Regional Medical Center
www.RRMC.org | 160 Allen Street, Rutland, VT | 802.775.7111

March 25, 2024

Mr. Owen Foster, Chair
Green Mountain Care Board
144 State Street
Montpelier, Vermont 05602

Dear Chair Foster,

In response to the FY 2025 Draft Budget Guidance, Rutland Regional Medical Center would like to express feedback regarding the following themes:

I. **Net Patient Service Revenue** – a cap on system-wide hospital Net Patient Revenue (NPR) that is no more than 3.5% above prior year budget.
II. **Commercial Rate Growth** – establishing a cap on any commercial rate increases from any individual commercial payer. The commercial rate growth being no more than the PCE price index +1% over FY24 approved budget, which amounts to 3.4% for FY25.
III. **Operating Margin** – "a hospital's operating margin shall be greater than zero."
IV. **Administrative Process** – the amalgamation of information requirements from one fiscal year to another has been incorporated into this budget process and has substantially increased administrative demands.

I. Net Patient Service Revenue

The current draft FY 2025 budget guidance is seeking to set the system-level growth in net patient revenues to 3.5% - 4.3% over the prior year budget. The latest staff recommendation is 3.5% over the prior year's budget. An assessment of budget accuracy is not possible when utilizing a budget-to-budget approach to evaluate allowable growth. Therefore, if the budgeted revenues are overly optimistic or pessimistic in consecutive periods, it will lead to misinterpretation of performance trends. Furthermore, this method does not directly address the variance between budgeted and actual revenues, potentially masking underlying issues in budget accuracy or operational performance. Lastly, establishing a fixed target does not consider the possibility of substantial increases associated with improved access to care as identified in our required wait time reporting.

Our recommendation is to maintain the budget-to-actual approach utilized in the prior year's process. Thus, establishing an allowable growth over a two-year period. This recommended approach would then allow for utilizing the established 8.6% growth to be reviewed from actual FY23 NPR/FPP to budgeted FY25 NPR/FPP.

II. Commercial Rate Growth

The current draft FY25 budget guidance imposes a uniform cap on commercial rate increases for all payers, which presents significant challenges, specifically:

i. Restricting our ability to establish a balanced and equitable arrangement among payers, potentially perpetuating the existing dominance of one payer over another; and
ii. Reduces our capacity to manage situations where payers, by implementing payment denial strategies, compromise previously negotiated rates.
iii. Further increases the leverage of payers, decreases the ability for hospitals to have equity in negotiations, and inequitably enhances payer positions by not taking into account that payers will change their policies and payment rules to combat and erode any meaningful rate increases the GMCB provides Hospitals.

Implementing a commercial rate cap at the volume-adjusted aggregate level would afford us the flexibility to continue accommodating variations among payers, permitting certain payers to operate below the cap while enabling others to surpass it, all while retaining comprehensive oversight. Our recommendation is to maintain the commercial rate cap in the aggregate due to the foregoing reasons.

Additionally, should the guidance reincorporate the consideration of a commercial rate cap by service line (inpatient, outpatient, and professional), RRMC would appreciate being notified so that it may have the opportunity to provide comment regarding the challenges associated with such an approach. Regulation of this nature restricts the ability to modify charges at the service or procedure level that require adjustment (either upward or downward) when comparing to other hospitals as part of the mandatory price transparency practice. As a result, this will require hospitals to implement a uniform increase across all charges.

The current draft FY25 budget guidance is seeking to utilize the Personal Consumption Expenditure (PCE) plus one percent as the basis for setting the commercial rate growth benchmark. This is inherently imbalanced as it takes only a portion of our operations and compares it to an inflationary metric that encompasses all consumer spending. Additionally, PCE is limited as it does not consider the unique cost structures, regulatory influences, patient demographics, and healthcare-specific factors that characterize the industry.

Our recommendation is to develop a balanced and standard metric for setting a commercial rate threshold. The Medical Consumer Price Index (CPI) is one example due to maintaining a specific focus on healthcare expenses. However, it is always cautionary to consider a hospital’s unique circumstances and objectives when selecting a benchmark for assessing inflation.

III. Operating Margin

The current draft FY25 budget guidance sets an operating margin benchmark for hospitals to be greater than zero. Operating with a zero percent margin does not leave room for capital reinvestment and especially does not permit enhancements or improvements for access to care. This also places hospitals at considerable financial risk due to the lack of reserves to offset any losses associated with the OneCare All Payer Model and potential payment settlements contingent upon total cost of care targets. Setting a target of zero percent operating margin undermines financial sustainability, limits adaptation to changing circumstances, decreases our ability to create value for Vermonters, inhibits our efforts in responding to access to care needs, and finally, will detrimentally impact our ability to reinvest in programs aimed at improving care delivery and population health.

Instead, a more balanced approach that prioritizes financial resiliency, while managing costs judiciously, is essential for ensuring long-term stability. Within a financial resiliency methodology an organization is only thought to be surviving when operating margins range between 1.0% and 2.0%. Additionally, pursuing a zero percent margin will most certainly inhibit a hospital's capacity to address capital needs beyond the rate of depreciation.

Our recommendation is to develop an agreed upon financial resiliency and sustainability model, whereby appropriate sources of cash (operating margin, philanthropy, grants, etc.) are balanced with appropriate uses of cash (capital expenditures and debt payments) to establish levels that indicate surviving versus sustaining versus succeeding. This model would rely on credible industry benchmarks, such as those provided by rating agencies.

IV. Administrative Process

The current draft FY25 budget guidance integrates the consolidation of information from previous years, while remaining unclear on its potential utilization in the decision-making process. Our yearly aim is to work collaboratively to consistently maintain a streamlined budget process while providing the board with the information necessary to make an informed decision. However, the guidance this year significantly increases the administrative workload which will result in doubling the time needed for budget submission.

Our recommendation is to clearly identify the essential information for decision-making and prioritize collecting and analyzing that data. We appreciated the comments provided during the previous meeting March 20, 2024, where certain items were highlighted as not pertinent to the decision-making process. However, we have yet to observe any modifications to the draft guidance in response to these crucial insights. We have also recently proposed several recommendations to the Green Mountain Care Board staff that would streamline the process if implemented.

We also wish to convey our support of the letter submitted by the Vermont Association of Hospitals and Health Systems as it pertains to the FY25 budget guidance.

Thank you for considering our feedback; we always welcome the opportunity to work collaboratively with Green Mountain Care Board Members and Staff.

Respectfully,

J. Bertrand

Jennifer Bertrand
Chief Financial Officer
Rutland Regional Medical Center

Cc Judi Fox