



July 2, 2024

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

Re: May 30 GMCB Letter on UVM Medical Center and Porter Hospital FY23 NPR Variance

Dear Chair Foster:

In this response to the Green Mountain Care Board's (the "Board") June 4, 2024 letter regarding the year-end actual Net Patient Revenues (NPRs) for UVM Medical Center and Porter Hospital, please accept the below description of the drivers of increased NPR, internal communications to leaders and our Trustees describing the variance, and our proposed path forward.

Introduction

Over the past two years, the UVM Health Network's hospitals – including UVM Medical Center and Porter Hospital – have intently focused their efforts on improving access to high quality care for their patients. That increased patient access, which the Board has repeatedly encouraged as being necessary to care for the population we serve, resulted in \$121 million of unbudgeted utilization-driven revenue at the UVM Medical Center in FY23, and nearly \$10 million at Porter Hospital. Of course, caring for additional patients also brings increased care-related expenses and accompanying investments in our clinical workforce. As a result, neither hospital ended FY23 with more cash on hand than it had at the beginning of the year.

At the same time the hospitals were working to increase access to patient care, they sought and received additional increased reimbursements from non-commercial payers (Graduate Medical Education and Sole Community Hospital payments for UVM Medical Center and increased cost-based Medicare reimbursements for Porter Hospital). While that additional reimbursement increased the hospitals' NPR, it will allow them to continue to provide access to the care their patients need, with the least impact on commercial rates.

For these reasons and others, all of which are discussed in more detail below and in the accompanying documents, the Board should not take any enforcement action that would jeopardize the hospitals' unbudgeted revenue, since that revenue was utilized to support the care the hospitals provided. The Board and the hospitals should, however, discuss whether the FY23 budgets may be adjusted upward to take account of the increased revenue produced by increased access, and to allow for more meaningful budget-to-budget regulation in the future.

Historical Context

While finances improved for UVM Medical Center and Porter Hospital in FY23, it is important to place that improvement into context. As the Board knows, health care providers were put under tremendous financial stress as a result of the pandemic and the ensuing worsening of the workforce crisis. These last few years have significantly eroded the liquidity of our nonprofit delivery system. That liquidity is necessary to reinvest in our people, our programs and our communities. In an effort to preserve our remaining liquidity, millions of dollars' worth of capital investment have been delayed. These delayed investments have created a significant backlog, which we need to begin addressing now before significant damage is done to the availability and quality of the health care we provide.

Below is chart showing that even after the FY23 results, which included a 3.1% margin for UVM Medical Center and a 7.1% margin for Porter Hospital, we are far from recovering the liquidity that was lost since 2021, and we have not begun to address the backlog of investments. Even when the UVM Medical Center and Porter Hospital produce positive operating margins in FY24, as we currently project, we will still be \$331M down in liquidity at UVM Medical Center and \$16M at Porter Hospital, when compared to pre-pandemic levels. That deficit has serious consequences for our ability to re-invest in our people and facilities for the benefit of our patients. For comparison, the preliminary 2023 A rated median benchmark for S&P for days cash on hand is 178. Currently, UVMMC has 113 and Porter Hospital has 123. S&P also indicates that hospitals should make annual capital investments equal to 125% of their depreciation, simply to keep their facilities reasonably modern. Currently, the 101% capital spend for UVM Medical Center and 105% for Porter Hospital in FY24 fall far short of this benchmark and are not making up for the under-investment in FY21 -FY23. We highlight this because section 3.401(3) of the GMCB Hospital Budget Review states that the Board's review ***shall take into consideration the financial position of the hospital in relation to other hospitals and to the health care system as a whole, using the statistics developed from information submitted in compliance with the uniform reporting manual.***

	FY21 Actual	FY22 Actual	FY23 Actual	FY24 Projected
<u>UVMHC</u>				
Days Cash on Hand	201	113	113	121
Increase / (Decrease in Cash)		\$ (378,400,000)	\$ -	\$ 47,200,000
Cumulative		\$ (378,400,000)	\$ (378,400,000)	\$ (331,200,000)
Capital Spend	\$ 42,331,000	\$ 53,798,000	\$ 51,251,000	\$ 70,000,000
Depreciation	\$ 62,290,000	\$ 68,233,000	\$ 69,412,000	\$ 69,441,000
Capital Spend as % of Depreciation	68%	79%	74%	101%
Capital Spend at 125% of Depreciation	\$ 77,862,500	\$ 85,291,250	\$ 86,765,000	\$ 86,801,250
Capital Spend Deficit	\$ (35,531,500)	\$ (31,493,250)	\$ (35,514,000)	\$ (16,801,250)
Cumulative	\$ (35,531,500)	\$ (67,024,750)	\$ (102,538,750)	\$ (119,340,000)

PORTER HOSPITAL

Days Cash on Hand	163	119	103	113
Increase / (Decrease in Cash)		\$ (14,300,000)	\$ (5,680,000)	\$ 3,810,000
Cumulative		\$ (14,300,000)	\$ (19,980,000)	\$ (16,170,000)
Capital Spend	\$ 2,060,000	\$ 1,731,000	\$ 1,972,000	\$ 2,576,000
Depreciation	\$ 2,882,000	\$ 2,953,000	\$ 2,627,000	\$ 2,457,000
Capital Spend as % of Depreciation	71%	59%	75%	105%
Capital Spend at 125% of Depreciation	\$ 3,602,500	\$ 3,691,250	\$ 3,283,750	\$ 3,071,250
Capital Spend Deficit	\$ (1,542,500)	\$ (1,960,250)	\$ (1,311,750)	\$ (495,250)
Cumulative	\$ (1,542,500)	\$ (3,502,750)	\$ (4,814,500)	\$ (5,309,750)

Prior to the pandemic, we were struggling to provide timely access to care for all of our patients. This challenge – like so many others – was made more acute by the pandemic, and amplified in 2021 by an assessment led by the Vermont Department of Financial Regulation, Agency of Human Services and the Board. Since then, our team has routinely been asked to provide updates on access initiatives, and access has been a major topic during our budget deliberations. In our FY24 budget order the Board stated: “Without better measures of productivity, the Board is left to conclude that UVM Health Network’s patient throughput can be increased to help generate additional revenue needed to cover cost without additional rate increase, while at the same time improving access and reducing wait times.”¹

As a result, we have been working both across our system and specifically within several services to improve timely access to care. In FY23, our primary service-specific areas of focus for increasing access were in radiology, surgical and specialty services. This focus on improving access resulted in the utilization variance from budget of \$121M for UVM Medical Center (which was more than the total NPR variance) and \$10M for Porter Hospital (which was the vast majority of the total NPR variance). The detail behind the variances is immediately below. Given our focus, we believe our budget variance is justified pursuant to section 3.401(2) of the GMCB’s Hospital Budget Review, which states that the Board’s review

¹ UVM Medical Center FY24 Budget Order, Page 22: [Microsoft Word - FY24 Hospital Budget Order - UVMHC - FINAL \(technical correction\) \(vermont.gov\)](#)

shall take into consideration the hospital's ability to limit services to meet its budget, consistent with its obligations to provide appropriate care for all patients.

Responses to Questions

Questions 1, 2 and 3

The FY23 Actual to Budget narrative submitted to the Board on January 31, 2024, provides the drivers behind the utilization variances in #1, #2, and #3 of the request (see Exhibit A to this letter). Below, we have provided additional breakdown of the \$121M and \$10M utilization variances for UVM Medical Center and Porter Hospital. One of the more significant components driving our utilization variances is the increase in pharmaceutical revenue, driven by higher pharmaceutical costs, which represented \$26M for UVM Medical Center and \$2M for Porter Hospital. We do not routinely catalog this component of NPR growth, but believe it is important to do so here, given our limited control over this area of our budgets and the degree to which it is growing.

Department	NPR Utilization Variance
UVMCC	
Nursing Services	\$ 44,423,572
Pharmacy	\$ 25,681,013
Pathology & Laboratory Medicine	\$ 7,419,395
Perioperative Services	\$ (5,659,040)
Radiology Services	\$ 40,557,788
Rehab Renal & Respiratory Services	\$ (2,437,162)
Medical Group Provider Based Billing	\$ 3,045,563
Professional Revenue	\$ 8,062,219
Other	\$ 138,036
Total	\$ 121,231,384
PORTER HOSPITAL	
Clinical Services	\$ 1,892,252
Pharmacy	\$ 1,819,168
Hospital Operations	\$ (2,068,325)
Medical Group Part A	\$ 78,185
Nursing Services	\$ 1,065,757
Other Clinical	\$ 995,876
Hospital Services	\$ 4,097,261
Facility Providers	\$ (1,697,369)
Practices	\$ 2,351,976
Professional Revenue	\$ 1,043,371
Other	\$ 146,667
Total	\$ 9,724,820

Attached as Exhibits B – L to this letter are presentations made to the UVM Health Network Finance Committee, UVM Health Network Board, UVM Medical Center Board, and other internal leadership

groups where finances and access improvement initiatives were discussed. The presentations highlight the drivers behind NPR, other revenue, and operating expenses. Using Exhibit D as one example: slide 2 shows operating results by partner; slide 3 provides greater detail behind traveler and locum spend, a key driver of operating expense; slide 4 breaks down the primary margin variance drivers; slide 5 highlights progress on our path forward workstreams (aimed at improving finances after the terrible financial result of FY22); and slide 6 shows how we ended the year compared to the projection we needed to provide to the rating agencies in March of 2023.

Those same “path forward” initiatives produced approximately \$32 million in shared service efficiencies, all of which helped the hospitals reduce their administrative expenses while continuing to deliver greater access to high quality care. As a result, a greater percentage of the additional revenue was applied to direct patient care expenses.

Finally, as noted in our FY 2023 Actuals narrative, (Exhibit A), in FY23 we also sought and received changes to our governmental reimbursement structures in order to minimize the need for commercial insurers to make up for the fact that government payers still do not cover the expense of providing care to patients and reinvesting in the people and facilities necessary to do so. For instance, the UVM Medical Center applied for and was approved for Sole Community Hospital status by CMS in December 2022, resulting in an “add on” payment percentage of 7.1%, which translated into approximately \$9.5 million in unbudgeted revenue in FY23. It also sought and received unbudgeted Graduate Medical Education payments from CMS, which are intended to support the additional cost of training the physician workforce of the future while providing care. Although this additional revenue contributed to our NPR overage, our efforts to seek and receive these revenue streams are crucial to our ability to continue to provide increased access to care with the least impact on commercial insurance rates.

Question 4

We do not budget revenues and expenses by services line, we budget by departments. For example, our departments are inpatient floors, divisions within the lab (like chemistry, microbiology, hematology), divisions within radiology (like CT, MRI, nuclear medicine), peri-op services and pharmacy. In the response to questions 1 – 3 above, we have broken down the utilization variance by the department roll-up categories. In order to provide a sense of the service lines that drove this variance, we have used 2023 and 2022 data from our decision support system, which groups revenue and expense by inpatient, outpatient, and professional, and into service lines based on the diagnosis code billed. This data can also be used to estimate the margin impact of the utilization variance, which we have done in the chart below. Our decision support system does not yet have enough data to do this analysis for Porter Hospital since we only went live on Epic in 2022 (there is not enough claims adjudication history in the system). For Porter Hospital, we have assumed that expenses tied to the utilization variances for inpatient, outpatient, professional and swing revenue is the same 95%. For UVM Medical Center, again since we do not budget by service line, we looked at the service lines that had the largest net revenue growth from 2022 to 2023. The top five were Neonatology, Cardiology, General Surgery, Neurosurgery and Infectious Disease. The details behind these figures are in Exhibit M.

Department	NPR Utilization Variance	FY23 Total Cost % of Revenue	Estimated Cost Tied to Utilization Variance	Estimated Margin Impact of Utilization Variance
UVMCC				
Inpatient	\$ 33,894,293	98.4%	\$ 33,345,922	\$ 548,371
Outpatient	\$ 76,020,326	66.1%	\$ 50,232,719	\$ 25,787,607
Professional Revenue	\$ 11,316,765	174.2%	\$ 19,711,749	\$ (8,394,984)
Total	\$ 121,231,384		\$ 103,290,390	\$ 17,940,994
PORTER HOSPITAL				
Inpatient	\$ (3,675,700)	95.0%	\$ (3,491,915)	\$ (183,785)
Outpatient	\$ 10,385,585	95.0%	\$ 9,866,306	\$ 519,279
Swing Revenue	\$ 1,971,564	95.0%	\$ 1,872,986	\$ 98,578
Professional Revenue	\$ 1,043,371	95.0%	\$ 991,202	\$ 52,169
Total	\$ 9,724,820		\$ 9,238,579	\$ 486,241

The other NPR variance items are related to rate and payer mix, which fall directly to operating margin; there are no expenses associated with those variances. As a result, the estimated net operating margin impact of UVM Medical Center's NPR variance is a negative \$23M and a positive \$1.7M for Porter Hospital (see chart below).

Total NPR Variance Margin Impact		
Category	UVMCC	PH
Utilization	\$ 17,940,994	\$ 486,241
Reimbursement/Payer Mix	\$ (75,216,459)	\$ 51,539
Bad Debt/Free Care	\$ 33,344,250	\$ 2,639,133
Changes in DSH	\$ (11,826,485)	\$ (3,712)
Administrative Write-Offs	\$ (17,955,898)	\$ (1,411,473)
GME Reimbursement Change	\$ 30,713,364	\$ -
Total	\$ (23,000,234)	\$ 1,761,728

Questions 5 and 6

Below is a grid of the requested data, along with a narrative explanation of the variances. Since April YTD is month seven of our fiscal year, we have only provided variance explanations of the projected results, as the explanations would be the same for the YTD results.

	FY24 YTD April			FY24 Year-End Projected			Variance Explanation	FY23 Actual
	Actual	Budget	Variance	Actual	Budget	Variance		
UVMHC								
Net Patient Revenue	\$ 1,064,023,513	\$ 1,034,970,054	\$ 29,053,459	\$ 1,863,468,879	\$ 1,833,658,419	\$ 29,810,460	\$19.0M - 340B Outpatient Drug Settlement, \$27.0M - Increased Number of Patients / Higher Utilization, (\$16.0M) - Lower Collection Rate	\$ 1,739,015,783
Other Revenue	\$ 230,642,678	\$ 200,815,657	\$ 29,827,021	\$ 375,887,448	\$ 345,178,641	\$ 30,708,807	\$6.9M - FY23 FEMA Grants, \$14.8M - Employee Retention Credit, \$27.5M Retail Pharmacy, (\$18.5M) - Contract Pharmacy	\$ 328,946,447
Total Revenue	\$ 1,294,666,191	\$ 1,235,785,711	\$ 58,880,480	\$ 2,239,356,327	\$ 2,178,837,060	\$ 60,519,267		\$ 2,067,962,230
Operating Expenses	\$ 1,260,017,162	\$ 1,207,737,850	\$ (52,279,312)	\$ 2,175,029,421	\$ 2,114,294,843	\$ (60,734,578)	(\$10.0M) - Higher Staff Salaries / Contract Labor Utilization (needed to maintain higher patient volumes), (\$20.0M) - Retail Pharmacy Expense (tied to higher retail pharmacy volume), (\$13.6M) - Medical Surgical Supplies (tied to higher patient volume), (\$17.5M) - Pharmaceutical Expenses (tied to higher patient volume),	\$ 2,003,412,010
Margin	\$ 34,649,029	\$ 28,047,861	\$ 6,601,168	\$ 64,326,907	\$ 64,542,217	\$ (215,310)		\$ 64,550,220
PH								
Net Patient Revenue	\$ 70,485,908	\$ 72,816,186	\$ (2,330,278)	\$ 121,832,985	\$ 125,035,102	\$ (3,202,117)	(\$2.5M) - Lower Collection Rate, (\$1.7M) - Lower Utilization (primary from lower OR cases)	\$ 115,464,374
Other Revenue	\$ 2,951,045	\$ 2,292,063	\$ 658,982	\$ 5,058,934	\$ 3,929,250	\$ 1,129,684	\$600K - Higher Contract Pharmacy, \$500K - Higher Payer Incentives	\$ 4,602,236
Total Revenue	\$ 73,436,953	\$ 75,108,249	\$ (1,671,296)	\$ 126,891,919	\$ 128,964,352	\$ (2,072,433)		\$ 120,066,610
Operating Expenses	\$ 70,780,330	\$ 70,997,356	\$ 217,026	\$ 121,337,709	\$ 121,397,490	\$ 59,781		\$ 111,636,956
Margin	\$ 2,656,623	\$ 4,110,893	\$ (1,454,270)	\$ 5,554,211	\$ 7,566,862	\$ (2,012,651)		\$ 8,429,654

Conclusion

When we look at the NPR variances for UVM Medical Center and Porter Hospital for FY23 and the components that drove higher-than-budgeted growth, we see it falling into two big buckets:

- Increased revenue due to access initiatives (something all of us have been focused on and wanting to see), accompanied by increased expenses to support access, and successful efforts to decrease administrative costs.
- Increased reimbursements from non-commercial payers (GME and Sole Community Hospital payments for UVM Medical Center and increased cost-based Medicare reimbursements for Porter Hospital).

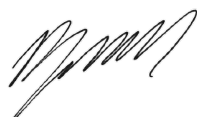
As a result, we believe that the FY23 actual NPR reflects that both UVM Medical Center and Porter Hospital worked hard to do exactly what our patients, the Board, and other governmental stakeholders asked us to do: increase access to much needed care while minimizing the impact that access has on commercial insurance rates. It was also an important, if insufficient, step toward rebuilding the financial foundations of our hospitals after they were severely undermined by the pandemic. The Board should therefore allow UVM Medical Center and Porter Hospital to retain the unbudgeted revenue – which was utilized to support the additional care the hospitals provided – so that they may continue to reinvest in the people and facilities necessary to maintain, and where necessary expand, access to high quality care.

The Board should also consider adjusting both hospitals' FY23 budgets upward to take full account of the increased revenue they received due to the factors described above. Although such a retroactive adjustment might appear to be an academic exercise, it could benefit the Board's regulation of the hospitals' budgets on a going-forward basis. When a hospital significantly exceeds its budgeted NPR in

order to provide increased access to needed care, the following year's NPR budget-to-budget guidance is difficult to meaningfully apply without risking harm to the access gains the Board encouraged and the hospital achieved. In those circumstances, in order to sustain the increased access (and create more access where needed) while controlling the growth of patient revenue going forward, the hospital's NPR growth should be judged against the prior year's actual results, not the prior year's budget. A budget adjustment of the type described above has the effect of eliminating the difference between actual and budgeted NPR for purposes of subsequent budget regulation. This is a phenomenon we have encountered together before. In its FY17 budget order, the GMCB acknowledged UVM Medical Center's increased NPR due to utilization, and "rebased" its budget moving forward.² In order to facilitate a conversation on this topic, and a possible rebasing of those hospital budgets as part of that process, please accept this letter as an application to adjust the UVM Medical Center and Porter Hospital FY23 budgets. See 18 V.S.A. 9456(f); GMCB Rule 3.000 § 3.401(c).

We look forward to discussing these issues with you at our FY25 budget hearings on August 28, or at a separate and earlier date if the Board would prefer. Please do not hesitate to contact me if you have any questions in the meantime.

Sincerely,

A handwritten signature in black ink, appearing to read "Rick Vincent", written in a cursive style.

Rick Vincent
Executive Vice President and Chief Financial Officer

² UVM Medical Center FY17 Budget Order: [FY17-UVMCMC-Order.pdf \(vermont.gov\)](#)