UVMMC and CVMC FY 2022 Mid-Year Budget Adjustment Request
GMCB Staff Questions – March 24, 2022

UVMHN letter states they wanted a decision for an effective date of April 1, 2022. The GMCB did not receive the request until March 18; our policy states staff should have at least 15 days to give a recommendation to the board, and the board would have 30 days from the letter to make a decision.

We understand that the board has 30 days from receiving the budget request to make a decision. We are not requesting that timeline be changed. What we are requesting is that the GMCB approve this request to be effective on April 1, so that we can work with the payers to account for an effective 10% rate increase to our approved FY 2022 rates. Depending on when the rate increases are actually implemented, that may require a higher rate, or a settlement amount with the payers to raise the full amount of revenue we are requesting.

What is UVMMC's and CVMC's contingency plan if these requests are not approved?

If the requests are not approved, we will have to reduce capacity and scale back services.

What type of services will have an increase of 10%? Will UVMMC and CVMC limit services if their request is not approved? Does your request have any impact on wait times?

We will use the same process for this mid-year adjustment that we use to allocate our approved annual budgeted rate increase. We will examine all codes, looking for opportunities to standardize around a consistent multiplier compared to Medicare, opportunities to bring various commercial rates more in line with each other and where the rates compared to market should be adjusted. As stated above, yes, if this mid-year adjustment is not approved, we will need to scale back service, which will impact wait times.

Is the change in charge (increase in rate) an additional 10% over the original rates of 6% and 6.05% respectively? Or the increase is the total from the original approved increase? Can you confirm that? What would be the overall rate increase for FY 2022?

Yes, the change in charge will be an additional 10% over the original rates of 6% and 6.05%. We will need a charge increase, otherwise some of the contractual increases (code specific increases) will push up against lesser of provisions (if our charge is less than our contracted rate, we get paid our charge).

We understand a charge increase has a broad impact, not only affecting commercial payers who pay a percent of charge but also self-pay patients. As we develop the FY 2023 budget, the goal is to limit our charge increase and negotiate broader rate increases from our payers, which would be different by payer yet ultimately complying in aggregate with GMCB's approved rates.

How would you calculate the prorations of the mid-year increase and the gross and NPR/FPP increases in % and dollars? What would be the gross and net revenue impacts for a full year?

We know what each 1% increase in our commercial rate equals in dollars. As highlighted on the charts in our mid-year budget adjustment request, for UVMMC that is $4.9M, and for CVMC $791K. Using our requested 10% increase, as shown in the chart below, that means we need to achieve a $32.M increase in dollars for UVMMC from April 1, 2022 to September 30, 2022, and $5.3M for CVMC. Also highlighted below is what the rate increase or cash settlement would need to be if that required increase was spread over five months or four months.

As highlighted on the charts in our mid-year budget adjustment request, the increase in gross revenue if our request is approved is projected to be $65.8M for UVMMC and $10.5M for CVMC. Net patient revenue is projected to increase $27.9M for UVMMC and $4.5M for CVMC. This is less than the $32.9M and $5.3M

figures in the chart below to account for the fact that due to prior authorization requirements, medical necessity denials and other payer policies, we never achieve the full amount of our contracted commercial rate increases.

	UVMMC	CVMC
Value of 1% Increase in Commercial Rates for 9 Months	$ 4,936,889	$ 791,385
Value of 1% Increase in Commercial Rates for 1 month	$ 548,543	$ 87,932
Value of 1% Increase in Commercial Rates for 6 Months	$ 3,291,259	$ 527,590
Value of 10% Increase in Commercial Rates for 6 Months	$ 32,912,593	$ 5,275,900
Required Commercial Rate Increase if Spread Over 5 Months	12.0%	12.0%
Required Cash Settlement if 10% Commercial Rate Increase Spread Over 5 Months	$ 5,485,432	$ 879,317
Required Commercial Increase if Spread Over 4 Months	15.0%	15.0%
Required Cash Settlement if 10% Commercial Rate Increase Spread Over 5 Months	$ 10,970,864	$ 1,758,633

Why was the UVMMC budget for NPR/FPP 43% of gross revenue and now the projections and projections with increase report 41%, and CVMC's budget was 48% of gross revenue and now the projections and projections with increase report 46%?

For both hospitals, the difference is driven by a variance in payer mix; actuals have less commercial and more government payments than budgeted, lower than budgeted rate increases for Medicare and commercial insurance (reduction in our FY 2022 budgeted rate request), and a difference in service mix. More of our volume so far this year has been medical versus surgical encounters due to the Omicron surge filling our capacity with medical patients, forcing us to limit our amount of surgical volume. Surgical encounters generate more revenue than medical encounters. In addition, due to not having enough non-acute capacity in our communities to discharge patients to, the cost to care for patients is beyond the fixed DRG reimbursement utilized by government and commercial payers.

What are the financials with total margin?

Below is the projection file that was included in our mid-year budget adjustment request with lines added for total margin. In supplying this information, we want to make clear that total margin should not be used to determine the financial viability of a health care organization. There is significant volatility in this non-core component of our operation, which is why we internally, and the rating agencies, focus on operating EBIDA margin (answering the question: are you generating cash from your core operations to continue reinvesting in the organization?).

CVMC	FY 2021 Actual	FY 2022 Projected	FY22 Projected with Rate Increase	FY 2022 Budget
Gross Patient Service Revenue	$ 465,268,488	$ 524,977,656	$ 535,529,456	$ 525,187,153
Deductions from Revenue	$ (285,142,720)	$ (337,973,176)	$ (344,040,461)	$ (321,271,697)
FPP and OCV Revenue	$ 47,219,794	$ 54,927,423	$ 54,927,423	$ 45,669,416
Net Patient Service Revenue	$ 227,345,562	$ 241,931,903	$ 246,416,418	$ 249,584,872
Other Revenue	$ 21,394,398	$ 24,441,211	$ 24,441,211	$ 17,420,950
Total Revenue	$ 248,739,960	$ 266,373,114	$ 270,857,629	$ 267,005,822
Physician Salaries	$ 28,784,095	$ 29,545,155	$ 29,545,155	$ 27,917,178
Staff Salaries	$ 96,134,289	$ 108,884,413	$ 108,884,413	$ 97,979,344
Payroll Tax & Fringe	$ 33,807,949	$ 33,250,300	$ 33,250,300	$ 36,758,344
Total Salaries & Benefits	$ 158,726,333	$ 171,679,868	$ 171,679,868	$ 162,654,866
Total Non-Salary & Benefit Expenses	$ 92,552,781	$ 99,607,530	$ 99,867,632	$ 101,661,306
Total Expenses	$ 251,279,114	$ 271,287,398	$ 271,547,500	$ 264,316,172
Net Operating Margin	$ (2,539,154)	$ (4,914,284)	$ (689,870)	$ 2,689,650
Non-Operating Revenues and Expenses	$ 29,676,109	$ (1,149,134)	$ (1,149,134)	$ 7,997,546
Total Margin	$ 27,136,955	$ (6,063,418)	$ (1,839,004)	$ 10,687,196

UVMMC	FY 2021 Actual	FY 2022 Projected	FY22 Projected with Rate Increase	FY 2022 Budget
Gross Patient Service Revenue	$ 3,083,748,404	$ 3,510,302,905	$ 3,576,128,092	$ 3,453,151,359
Deductions from Revenue	$(1,950,170,041)	$(2,270,181,952)	$(2,308,031,434)	$(2,137,437,821)
FPP and OCV Revenue	$ 174,137,869	$ 186,288,197	$ 186,288,197	$ 184,880,390
Net Patient Service Revenue	$ 1,307,716,232	$ 1,426,409,150	$ 1,454,384,855	$ 1,500,593,928
Other Revenue	$ 301,030,443	$ 290,479,729	$ 290,479,729	$ 213,583,061
Total Revenue	$ 1,608,746,675	$ 1,716,888,879	$ 1,744,864,584	$ 1,714,176,989
Physician Salaries	$ 195,160,314	$ 211,156,171	$ 211,156,171	$ 205,922,158
Staff Salaries	$ 547,014,092	$ 635,236,681	$ 635,236,681	$ 551,773,861
Payroll Tax & Fringe	$ 168,312,724	$ 174,177,455	$ 174,177,455	$ 191,974,555
Total Salaries & Benefits	$ 910,487,130	$ 1,020,570,307	$ 1,020,570,307	$ 949,670,574
Total Non-Salary & Benefit Expenses	$ 661,736,988	$ 735,460,143	$ 737,082,734	$ 713,081,105
Total Expenses	$ 1,572,224,118	$ 1,756,030,450	$ 1,757,653,041	$ 1,662,751,679
Net Operating Margin	$ 36,522,557	$ (39,141,570)	$ (12,788,457)	$ 51,425,310
Non-Operating Revenues and Expenses	$ 83,240,192	$ (11,892,768)	$ (11,892,768)	$ 20,981,262
Total Margin	$ 119,762,749	$ (51,034,338)	$ (24,681,225)	$ 72,406,572

What was the amount of the insurance check received and recorded for the cyberattack incident?

$30M was received and recorded as operating revenue (non-patient revenue).

You note UVMMC has financial recovery plans in place. Please discuss what these are, specifically, the intended dollar impact, and how they relate to your request.

The projected margin in January without any financial recovery efforts for UVMMC was ($106M) and for CVMC ($15M). This projection compared to the projections above that include financial recovery assumptions represents $67M of financial recovery for UVMMC and $10M for CVMC. Even if we achieve these financial recoveries, we are still projecting to end the year with a loss. If the mid-year rate adjustment is approved by the GMCB, and we are successful in negotiating that rate increase with the payers, we are still projecting to end the year with a loss, just a smaller loss. It is important to note that the 340B program is under severe pressure by the pharmaceutical industry, resulting in continued risk to our 340B outpatient pharmacy revenues. Below is a summary of the items that are part of the combined UVMMC and CVMC $77M recovery plan:

- $20M Reduction in contract labor usage and other expense reductions
- $41M Capture of pent-up patient volume
- $16M Increase in 340B outpatient pharmacy volume