
THE
University of Vermont
HEALTH NETWORK

March 18, 2022

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

Dear Green Mountain Care Board Members:

The recent sharp rise in inflation has made daily life more difficult for nearly all Vermonters. On March 10, *The New York Times* reported that “prices increased 7.9 percent in the year through February, the fastest pace of inflation in 40 years.”¹ Every family, every employee, and every business – whether big or small – is struggling to cope with the fact that it now costs more to run their household, office, or shop than it did less than a year ago. Health care providers, who take responsibility for caring for all of those Vermonters, are not immune to those same inflationary pressures. And unfortunately, those pressures now require us to adjust two of our hospital budgets if we are to continue to provide the care that Vermonters have become accustomed to receiving from us, while improving access to services that are already constrained.

As a result, pursuant to 18 V.S.A. § 9546(f) and Board Rule 3.401, the University of Vermont Medical Center (UVMMC) and Central Vermont Medical Center (CVMC) hereby request FY 2022 budget adjustments and accompanying commercial rate increases. The Network projects a \$107,724,442 increase in UVMMC’s expenses and a \$15,153,429 increase in CVMC’s expenses for the year due to rising cost inflation. While these costs would justify a commercial rate increase well over 20%, we are asking for a 10% increase at this time.

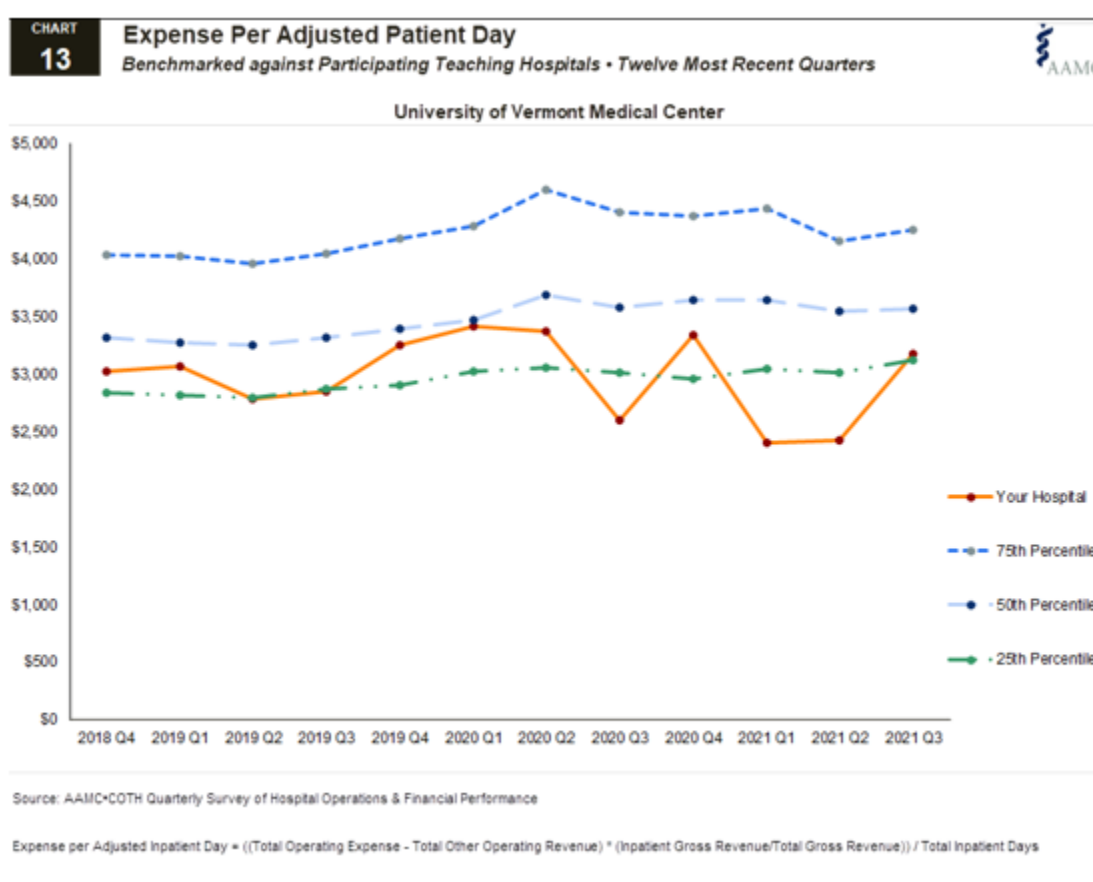
As set forth below, both hospitals’ performance have varied substantially from their approved budgets, and both hospitals are facing exceptional and unforeseen circumstances that require the requested budget adjustment in order to preserve the hospitals’ abilities to serve Vermonters’ health care needs. This request, if approved, needs to be effective on April 1, 2022 in order for UVMMC and CVMC to capture the additional revenue needed to offset a portion of the increased costs and maintain access to services.

The increased expenses facing our hospitals do not arise from an influx of patients, either COVID or non-COVID related. If that were the case, the increased volume would not, on its own, require a rate increase. New patients and new volume come with both new revenue and new expenses. Depending on the service, some of this new volume generates a margin while some does not. The net result is that, on average, uninflated revenue increases from new volume generally cover uninflated expense growth, so the margin impact is minimal.

¹ [Inflation, CPI, Stocks and Impact of Ukraine War: Live Business News - The New York Times \(nytimes.com\)](https://www.nytimes.com/2022/03/10/us/economy/inflation-cpi-stocks-ukraine-war.html) (visited March 10, 2022).

Instead, the increased expenses facing the University of Vermont Health Network (UVMHN), and all other individuals and businesses, arise from cost inflation described below. As we have highlighted on numerous occasions, the issue the Network has been struggling with for years is that revenue inflation from all sources – Medicaid, Medicare, and commercial payers – has not kept pace with cost inflation that is almost entirely outside of our ability, or that of any individual hospital or health network, to control. When that occurs, we become unable to continue to meet the needs of our communities, regardless of the volume of patients. Regrettably, after years of underfunding and our current year challenges, we have now reached that point.

The UVM Health Network’s hospitals have always controlled their expenses more effectively than most of their national peers. For instance, the expense per patient day at UVMHC has hovered around the 25th percentile of teaching hospitals in the country.



Chittenden, Washington, and Addison County – where our Network affiliate hospitals are located – are among the lowest-cost counties within Vermont for the Medicare program.² The ongoing integration of the UVM Health Network’s delivery system continues to reduce administrative overhead at its hospitals by sharing “back office” services that all of them require. But the Network’s historical cost controls cannot counteract the sharp inflation now facing all hospitals.

² Map: Price-Adjusted Total Medicare Reimbursements per Enrollee (Parts A and B), by County (2019). [Medicare Reimbursements - Dartmouth Atlas of Health Care](#) (visited March 17, 2022).

As a result, the budget adjustments we are requesting are necessary despite significant work across our Network to reduce spending to offset what have been unprecedented expense increases since the UVMMC and CVMC budgets were approved. The FY 2022 budget for UVMMC assumed \$38.6M or 2.5% of cost inflation. This was based in part on national cost inflation rates at the time. By the time we presented our budget at your August hearings, national inflation had risen to about 4%. For December 2021, the national figure had risen to 7%, the largest one-year increase since 1981³. By all accounts the inflation rate has risen more since then. The year-to-date annualized rate we have experienced is 9.2%.

For CVMC, we assumed \$6.1M or 2.3% of cost inflation in the FY 2022 budget, versus the YTD January annualized actual figure of \$21.2M or 8.2%. These persistent expense increases are driven by cost inflation in wages, goods, services, pharmaceuticals, and almost every other facet of our business. In addition, like health care providers across the nation, we have experienced increases in the payment rate and number of travel staff necessary at UVMMC and CVMC to meet patient needs. While we are hopeful our efforts to combat these increases will have a modest impact, we cannot assume they are one-time in nature, or that cost inflation will moderate anytime soon.

We also continue to experience higher-than-normal inpatient needs, as well as patients presenting with higher acuity conditions due to delayed care from the pandemic. In addition, we continue to have difficulty discharging patients to lower acuity beds or psychiatric care when appropriate, due to insufficient numbers of available skilled nursing facility (SNF) and psychiatric beds in the community. This continues to increase our average length of stay, which with DRG reimbursement for most of these patients, results in UVMMC and CVMC continuing to incur expense for caring for these patients after the revenue source has been exhausted. We have initiated financial recovery plans at UVMMC and CVMC to reduce expenses, and we are targeting our efforts to limit as much as possible any impact on patient care. Nevertheless our current situation is undeniable: If we are to continue to offer our current array of clinical services, and increase access to necessary services to address unmet and growing patient needs, we must increase our rates to cover the increase in cost inflation.

Impact of Wage and Personnel Costs

The vast majority of the increased cost inflation we have experienced at UVMMC and CVMC through January of FY 2022 is tied to personnel costs:

- We have instituted sign-on and retention bonus payments to try to recruit and retain staff;
- We have made market adjustments to keep pace with regional and national salary levels for certain roles;
- We have spent significantly more on overtime, urgent and on-call pay to incentivize staff to cover shifts due to lack of adequate staffing; and
- We have contracted with four times the number of travel staff at more than double the rates we budgeted for.

³ Bureau of Labor Statistics, U.S. Department of Labor, *The Economics Daily*, Consumer Price Index: 2021 in review at <https://www.bls.gov/opub/ted/2022/consumer-price-index-2021-in-review.htm> (visited March 9, 2022).

UVM Medical Center

At UVMMC, our need for travel staff increased from 137 in December 2020 to 399 in December 2021, while the average hourly rate we paid for these workers increased from \$80 to \$160. We want to be clear: Without these additional staff (and associated costs), we would not be able to maintain the level of services currently available to patients. In fact, hospitals in other states have made the decision to curtail services rather than pay a premium to continue to make them available while losing money. We did just the opposite, often at the request of the State. The health of Vermonters has depended on us stepping up, time and again, to make investments to meet the needs of the community, including:

- Opening additional intensive care unit (ICU) capacity at the request of the State of Vermont;
- Continuing to operate the single largest immunization program in the state;
- Meeting the unprecedented emergent physical and mental health needs of patients;
- Staffing an increased number of medical/surgical beds driven by higher patient needs and persistent challenges in discharging patients no longer needing inpatient-level care; and
- Deploying our permanent and contract staff to other facilities both within and outside the Network to ensure continuity of services.

The significantly higher cost inflation we are experiencing resulted in UVMMC losing \$23M in the first quarter of the current fiscal year. Without federal COVID-19 relief funds, that loss would have been \$33M. Even after taking into consideration the cyberattack insurance payment we received in January, UVMMC is projected to lose \$39M by the end of the fiscal year, which is \$90M below budget. Since these expenses do not represent a one-time phenomenon, but rather a new reality of operating our facilities, we can project future year budgets will see this impact compounded.

Central Vermont Medical Center

At CVMC, our need for travel staff increased from 10 staff in December 2020 to 60 in December 2021, while the average hourly rate we paid for these workers increased from \$86 to \$128, with some being as high as \$180. Similar to UVMMC, had we not hired these additional staff (and incurred the associated costs), we would not be able to maintain the level of services currently available to patients. We have continued to make investments to meet the needs of the community, including:

- Maintaining staffing to keep maximum ICU available bed capacity at CVMC, at the request of the State of Vermont;
- Meeting the unprecedented emergent physical and mental health needs of patients;
- Staffing an increased number of medical/surgical beds driven by higher patient needs and persistent challenges in discharging patients no longer needing inpatient-level care to cover not only COVID-19 surge patients, but also to care for a sicker population that may have delayed care during the pandemic; and
- Maintaining additional staffing at our Woodridge subacute location to help maintain acute care bed availability in Central Vermont.

The significantly higher cost inflation we are experiencing resulted in CVMC posting breakeven results for the first quarter of the current fiscal year. Without federal COVID-19 relief funds, CVMC would have incurred a \$4.4M loss. CVMC is projected to lose \$5M by the end of the

fiscal year, which is \$8M below budget. Similarly, we can project future year budgets will see the impact of these inflationary expenses compounded.

Methodology

To determine the mid-year budget adjustment needed, we used the same calculation we use for our required commercial rate increase in our annual budget submission, except instead of projected cost inflation, we used the actual cost inflation we have incurred through January of FY 2022. Had we known in July 2021 what we know now, our commercial rate request for UVMMC would have been 28.87%. We submitted a 7.05% rate increase request in the FY 2022 budget, and the GMCB approved an increase of 6.05%. This leaves us now 22.82% short for the fiscal year at UVMMC if we are to cover our actual cost inflation. At this point we are requesting a 10% mid-year increase to cover only a portion of our increased cost inflation, and to reduce the amount of increase we will need in our FY 2023 budget filing.

UVMMC					
FY22 Submitted Budget			FY22 Budget with Actual YTD Jan Expense Inflation		
<u>Expense Category</u>					
Salary & Fringe	\$ 27,381,482	3.0%	\$ 113,058,123	12.3%	
Med/Surg Expense	\$ 3,589,777	3.2%	\$ 8,846,409	7.9%	
Pharmacy	\$ 2,568,598	3.5%	\$ 13,038,583	14.1%	
All Other	\$ 2,896,267	0.0%	\$ 2,896,267	0.0%	
Provider Tax	\$ 2,175,921	2.6%	\$ 8,497,105	10.1%	
Total Expense without Outpatient Pharmacy	\$ 38,612,045	2.5%	\$ 146,336,487	9.5%	
Outpatient Pharmacy: Cost of Goods Sold	\$ 2,583,738	2.8%	\$ 2,583,738	3.5%	
Total with Outpatient Pharmacy	\$ 41,195,783	2.5%	\$ 148,920,225	9.2%	
<u>Payer Category</u>					
Medicare	\$ 4,221,551		\$ 4,221,551		
Medicaid	\$ (321)		\$ (321)		
Other Payers/Bad Debt/Charity	\$ (5,129,090)		\$ (5,129,090)		
Commercial - Other	\$ 4,714,834		\$ 4,714,834		
Commercial - Vermont	\$ 34,805,070		\$ 142,529,512		
Total	\$ 38,612,045		\$ 146,336,487		
Budgeted Commercial Rate Increase	\$ 34,805,070		\$ 142,529,512		
Value of 1% Commercial Rate Increase	\$ 4,936,889		\$ 4,936,889		
Budgeted Commercial Rate Increase	7.05%		28.87%		
GMCB Approved Commercial Rate Increase			6.05%		
Rate Shortfall			-22.82%		

For CVMC, using the actual cost inflation through January FY 2022, the required commercial rate increase is now 26.56%. We submitted a 7.41% rate increase request in the FY 2022 budget, and the GMCB approved an increase of 6.00%. This leaves us now 20.56% short for the fiscal year at CVMC. CVMC is requesting a 10% mid-year increase for the same reasons as UVMC.

CVMC					
FY22 Submitted Budget			FY22 Budget with Actual YTD Jan Expense Inflation		
<u>Expense Category</u>					
Salary & Fringe	\$	3,962,006	2.5%	\$	19,508,055 12.3%
Med/Surg Expense	\$	360,606	3.0%	\$	1,068,123 8.9%
Pharmacy	\$	961,338	4.0%	\$	(997,038) -4.1%
All Other	\$	469,792	0.9%	\$	469,792 1.0%
Provider Tax	\$	339,212	2.4%	\$	1,197,451 2.0%
Total Expense Inflation	\$	6,092,954	2.3%	\$	21,246,383 8.2%
<u>Payer Category</u>					
Medicare	\$	1,232,823		\$	1,232,823
Medicaid	\$	(178,653)		\$	(178,653)
Other Payers/Bad Debt/Charity	\$	(825,379)		\$	(825,379)
Commercial	\$	5,864,163		\$	21,017,592
Total	\$	6,092,954		\$	21,246,383
Budgeted Commercial Rate Increase	\$	5,864,163		\$	21,017,592
Value of 1% Commercial Rate Increase	\$	791,385		\$	791,385
Budgeted Commercial Rate Increase		7.41%			26.56%
GMCB Approved Commercial Rate Increase					6.00%
Rate Shortfall					-20.56%

It is important to note that these budget adjustments and subsequent requested commercial rate increases at UVMC and CVMC would be less pronounced if Medicaid and Medicare meaningfully increase reimbursement rates, thereby reducing the burden of the cost shift. A 1% increase in Medicaid rates would reduce the required commercial rate increase by 0.25%, and a 1% increase in Medicare rates would reduce the required commercial rate increase by 0.75%. It is also important to point out that if UVMC and CVMC operated under the same reimbursement mechanism as a Critical Access Hospital with the ability to secure reimbursement for higher cost inflation on its Medicare patients, the required commercial rate increases using our actual cost inflation through January FY 2022 would be approximately 16% versus the 28% and 26% figures. Indeed, the reason Porter Hospital is not seeking a budget adjustment is that, like many other Critical Access Hospitals in the state, it is already able to cover a portion of its cost inflation through Medicare's cost-based reimbursement model.

Conclusion

UVMMC and CVMC cannot sustain this magnitude of financial loss without it impacting access to services. In addition, if the actual loss ends up being greater than the projected \$44M figure, it is possible that UVMMC and CVMC could violate their debt service coverage ratio bond covenant. Such a step would not only jeopardize our system of care, but would undoubtedly result in increased costs to the system and ratepayers for years to come.

Finally, while we are in the early stages of building our FY 2023 budgets, we expect the trend in cost inflation we have experienced through January of the current fiscal year will persist. The 10% commercial rate increase we are submitting today for UVMMC and CVMC is what we need now, to ensure continuity of services and to avoid potentially triggering our bond covenant. It is our expectation that our FY 2023 rate requests will be higher than they have been in some time.

Our finance team received approval from the CVMC Board of Trustees on March 16 to submit this budget adjustment to the GMCB. The UVMMC Board of Trustees approved this budget adjustment request on March 17. Finally, the Network Board of Trustees approved these budget adjustment requests on March 18.

Thank you for your prompt and careful consideration of these adjustments. In addition, we would also appreciate the GMCB's support in our work with the major Vermont commercial payers to achieve these necessary rate increases.

Should you have any questions about these budget adjustments for UVMMC and CVMC, please contact:

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Vice President of Treasury and Financial Services
UVM Health Network
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Thank you for your consideration.

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

UVMHC	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

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