

Green Mountain Care Board
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Kevin Mullin, Chair
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MEMORANDUM

TO: Representative Mitzi Johnson, Speaker of the House
Senator Tim Ashe, President Pro Tempore
Senator Jane Kitchel, Chair, Senate Appropriations Committee
Senator Ann Cummings, Chair, Senate Finance Committee
Senator Virginia Lyons, Chair, Senate Health and Welfare Committee
Representative William Lippert, Chair, House Health Care Committee
Representative Catherine Toll, Chair, House Appropriations Committee
Representative Janet Ancel, Chair, House Ways and Means Committee

cc: Jen Carbee, Deputy Chief Counsel
Steve Klein, Chief Fiscal Officer
Nolan Langweil, Senior Fiscal Analyst

FROM: Kevin Mullin, Chair, Green Mountain Care Board

DATE: March 10, 2020

RE: FY2019 Financial Results for Vermont's Hospitals and Hospital Sustainability Planning

The Green Mountain Care Board recently released the FY2019 financial results for Vermont's community hospitals. Systemwide, hospital net patient service revenues increased 2.9%. However, many Vermont hospitals continue to face challenging financial circumstances, due to statewide demographic trends, growing supply costs, costs of pharmaceuticals, workforce shortages and for some a shifting payer mix. Workforce challenges continue to increase operating expenses. For example, workforce vacancies are often filled with travelling, temporary and contract labor. Travelling nurses, for example, are typically twice the cost of employed staff. In FY18, 11 hospitals reported \$54 million in traveling, temporary and contract labor. Industry expectation is that the cost of travelers in the system has grown in FY19.¹

In an effort to curb health care cost growth under the All-Payer ACO model and to pursue improved quality of care and population health outcomes, hospitals are being asked to replace fee-for service reimbursement with value-based and fixed-payments. Under this model, hospitals are expected to prioritize investments in primary care and prevention, with the long-term expectation that a healthier population will be less likely to require frequent and more costly specialty and acute care. Financial performance of Vermont hospitals in FY19 demonstrates the challenge of simultaneously addressing the existing financial and economic headwinds faced by our hospitals, while investing in the reform of our health care system to one that is value-based, focused on population health and grows in line with the economy.

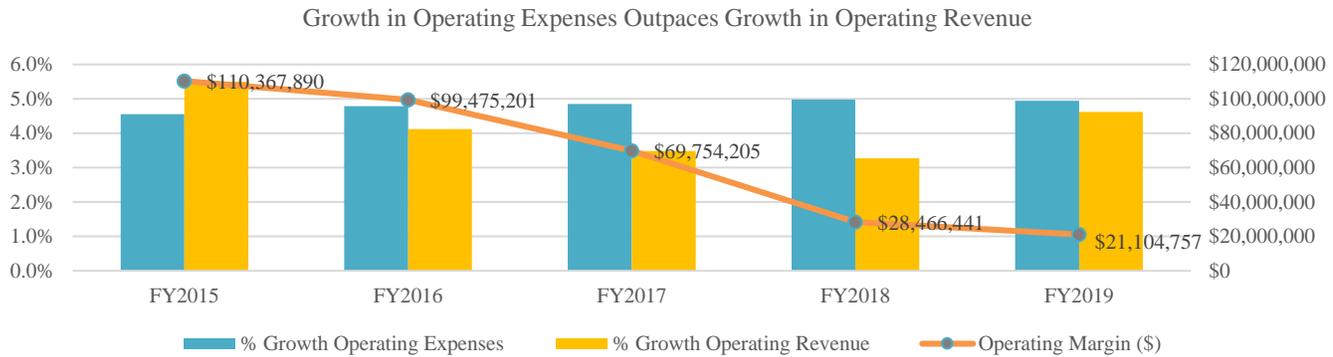
On a system level, operating expenses continue to outpace operating revenues, resulting in operating losses for many Vermont hospitals. Half of Vermont hospitals experienced operating losses in FY2019, with six of fourteen having experienced operating losses for three or more consecutive years. FY19 ended with a system-level operating margin of

¹ Rural Health Services Task Force Workforce: Cost of Vacancies, Slide 26.

<https://gmcboard.vermont.gov/sites/gmcb/files/documents/Rural%20Health%20Services%20Task%20Force-%20Act%2026%20of%202019%20-%20Report%20%26%20Recommendations.pdf>



\$21 million, a reduction since 2015 of \$89 million or approximately 81%. The chart below shows revenues compared to expenses and operating margin trends.



While most hospitals are engaged in strategic cost containment initiatives to control operating expenses, these efforts have often not been adequate to overcome threats to hospital sustainability. The Green Mountain Care Board recognizes and supports the Legislature’s initiatives in pursuing the workforce and telemedicine recommendations set forth by the Rural Health Services Task Force (Act 43 of 2019) as well as its work on prescription drugs. With the growing number of Vermont hospitals struggling to show positive operating margins, the Board recognizes an urgency to tackle these challenges of sustainability.

During the FY20 Hospital Budget Process, the Board required that six of Vermont’s hospitals participate in sustainability planning. The Board’s goals for these sustainability plans include identifying both hospital-led strategies for sustainability, including efforts to “right size” hospital operations, as well as barriers to sustainability that are more aptly addressed by other stakeholders, policy makers, or regulatory bodies. The Board intends to leverage what it learns from hospital sustainability plans as it begins planning for APM 2.0. A framework for these sustainability plans was proposed on February 26, 2020.² This sustainability framework is currently posted for public comment.³ The GMCB will continue to work with stakeholders and, in the coming weeks, will put forth a final recommendation for the publication of sustainability planning guidance and a timeline for its issuance and required submission.

² GMCB Staff Presentation on Hospital Sustainability Plan Framework. <https://gmcbboard.vermont.gov/sites/gmcb/files/Board-Meetings/Sustainability%20Planning%20Board%20Presentation%202262020.pdf>

³GMCB Special Public Comment: <https://gmcbboard.vermont.gov/board/comment>

