



Vermont . . .

Public Oversight Commission

John O'Kane, Chair

September 7, 2005

Commissioner John Crowley
BISHCA
89 Main St., Drawer 20
Montpelier, VT 05620-3101

Dear Commissioner Crowley,

The members of the Public Oversight Commission attended the recent three days of hospital budget and four year capital plan meetings. From these meetings we have formed some conclusions and observations which we offer to you as you consider the budgets and rate increases proposed by the hospitals, and also as the Administration prepares for the upcoming legislative discussion about health care and the Medicaid budget.

Observations on hospital budgets:

1. The BISHCA staff correctly noted that the overall financial health of the hospitals appears better than in some prior years. Nevertheless, the budgets described a future financial picture for the hospitals which is far from healthy.

Faced with this, there are two kinds of actions the hospitals should take. First, all the hospitals talk about cost control and some talk about systematic cost control. However, they appear not to have done what has been forced to happen in private industry in terms of making cost choices. Hospitals are discussing where to add services when private industries have had to make choices about where to cut activities. For their own survival, hospitals need to systematically and very vigorously strip out of their organizations every possible cost driver that isn't absolutely necessary to their most critical missions.

2. The transition to Critical Access status for several hospitals may be a financial reprieve for now, but the history of Medicare is that such financial advantage is often short lived.
3. Difficulty in recruiting primary care physicians is an ongoing problem in Vermont, but the budget hearings made clear these difficulties now extend

4. to a variety of specialty practices as well. The challenges in recruiting stem from not only an inability to provide competitive salaries, but the life style limitations of practice in small communities where there is little ability to reduce the impact of “on call” requirements. Shortages of physicians and surgeons represent a major financial risk to small and medium sized hospitals where specialists such as orthopedic surgeons drive a major segment of total hospital revenue. Vermont hospitals’ recruitment challenges need a more comprehensive assessment and solution.
5. Of all the issues facing the hospitals, the one which requires the most immediate action is the continuing failure to provide cost based Medicaid reimbursements. This is a major contributing factor to the physician recruitment problem as communities with larger Medicaid populations cannot provide competitive compensation to physicians. For the hospitals, it means that rates to non-government payers must rise disproportionately to cover the shortfall in Medicaid reimbursements. This raises insurance rates, leading to more uninsured, leading to more people on Medicaid and the downward spiral towards hospital insolvency continues. The discussions in the legislature and proposals by the Administration are not making this connection for the public and hospitals are labeled as asking for excessive rate increases when the real problem is the state’s failure to pay for what it has promised.
6. Malpractice insurance costs are rising at extraordinary rates at some hospitals. Actions already underway at BISHCA to possibly limit malpractice claims may help decrease this cost pressure. In addition, hospitals should be strongly encouraged to consider whether further adoption of captive insurance plans, including those covering multiple institutions, might not offer economies.

Observations on capital plans:

1. The physical plants at a number of hospitals are aging and require renovation or replacement. With a few exceptions, hospitals do not appear to have the financial resources to fund needed upgrades without being granted higher operating margins.
2. Historic rate increases for hospitals have approached being chaotic. Hospitals have no raises for a few years, and then propose double digit increases to “catch up”. It would be better business practice to have consistent and affordable rate adjustments from year to year for the hospitals to provide financial solvency and also the margin necessary for maintaining and updating the physical plants
3. Hospitals have modified their services, particularly to qualify for Critical Access status, but remain focused on a community based service model. It is questionable whether such a model with multiple hospitals in close proximity is appropriate or affordable. There is duplication and inefficiency in providing identical services in relatively close proximity. It cannot be sustained.

4. The four year capital plans for the hospitals must be viewed from the perspective of point 4 above: Are the capital plans consistent with a possible future service model which is more centralized, more efficient, and more affordable?
5. Information Technology plans are starting to show some collaboration, which is good. The problem remains that the funds available for IT investment from operating margins are not going to be sufficient to make the timely investments necessary to garner the long term savings in quality and efficiency which IT offers. There must be a plan at the state and federal levels to fund these investments.

Thank you for your consideration of these views.

Sincerely yours,

The Vermont Public Oversight Commission

John O'Kane, Chair