Agency of Human Services Office of Health Care Reform

Health Care Spending Reduction Report

REPORT DATE:	SENT TO:	SENT FROM:	STAFF HOURS SPENT PREPARING THIS REPORT:
7/1/2026	Health Reform Oversight Committee and Joint Fiscal Committee	Eli Hawgood, Health Reform Portfolio Director	3

KEY TAKEAWAYS

- **Act 68 of 2025** requires that the Agency of Human Services (AHS) identify ways to improve efficiency, care quality, and access to essential health services while reducing hospital spending by at least 2.5% for hospital fiscal year 2026.
- **Care transformation activities** are underway to ensure financial sustainability, improve access, strengthen the workforce, and improve outcomes. This includes strategic regionalization of services to align with population needs, establishing regional care delivery systems, and fostering partnerships between organizations.
- **Regional convenings** have resulted in each geographic region identifying collaborative goals that will facilitate the expansion of this work into the larger health system.
- **Act 68 hospital transformation grant opportunity**: AHS launched a $2 million grant opportunity to support hospital transformation planning and implementation. All hospitals have fully executed grant agreements and have submitted final transformation plans.
- **Technical assistance and enhanced analytics support**: Vendors are in place to provide technical assistance and analytical support for transformation work. This will ensure that optimal resources are accessible to hospitals and all providers across the continuum of care to support data-driven decision making throughout the transformation process.
- **Near-term next steps:**
    - Monitor process metrics related to affordability, access, quality and equity to ensure work is moving us in the desired direction.
    - Continuing to add new active initiatives to transformation work from hospitals and other provider groups.
    - Connect transformation initiatives to funding supports like Rural Health Transformation Funding.

HEALTH CARE SPENDING REDUCTION CURRENT STATUS

Current Health Care Spending Reduction Efforts[1]				
Context	**Specific Intervention**	**Estimated Associated Impact on Health Care Spending**	**Estimated Implementation Timing**	**Status**
Short-term Transformation Focus Groups	1) Shared services and consolidation of hospital administration 2) Shifting care to non-hospital providers	Not quantified	Ongoing	Focus groups convened in June and August; work is being incorporated into medium and long-term care transformation and regional planning work.
Act 55 of 2025	Caps on provider-administered drug prices	~ $119,000,000	January 1, 2026	Implemented.
Hospital Budget Orders	Green Mountain Care Board budget review for hospital FY 2026	$94,584,978	October 1, 2025	Budgets were approved September 15th for hospital FY 2026 beginning October 1, 2025.

BACKGROUND

Act 68 of 2025, an act relating to health care payment and delivery system reform, charged the Agency of Human Services (AHS) with identifying "opportunities to increase efficiency, improve the quality of health care services, reduce spending on prescription drugs, and increase access to essential services, including primary care, emergency departments, mental health and substance use disorder treatment services, prenatal care, and emergency medical services and transportation, while reducing hospital spending for hospital fiscal year 2026 by not less than 2.5 percent...". The Act requires AHS to report on "the proposed reductions that it has approved pursuant to" the reductions in spending and on the "progress in implementing and achieving the hospital spending reductions identified…".

Earlier iterations of this report can be found on the Health Care Reform website.

[1] Savings estimates are not mutually exclusive; some strategies overlap, are co-dependent, and may be realized on different time scales (hospital fiscal year vs. calendar year). Reported amounts should be interpreted accordingly.

UPDATES ON HEALTH CARE SPENDING REDUCTION EFFORTS

Transformation Activities

Building on Act 167 (2022) and the Community Engagement Report issued by the GMCB, AHS, as directed by Act 51 of 2023 and Act 68 of 2025, is continuing to advance hospital and health system transformation efforts to ensure Vermonters receive timely, accessible, and affordable care. Priorities for care transformation include:

1. Transforming the health system to ensure cost sustainability, workforce retention and growth, improved patient access, and better care outcomes.
2. Designing strategic regionalization of services to align with population needs, establishing regional care delivery systems, and fostering partnerships between organizations.
3. Maintaining access to essential local services.

Regional Convenings

Geographic regional convenings, led by Health Care Reform and Blueprint for Health teams, concentrated on assisting hospitals with finalizing their transformation plans and setting regional objectives.

- In the Northeast, efforts are centered on expanding shared services and expanding NEK Prosper, the robust community collaborative in the region.
- In the Northwest, hospitals are focused on shifting services away from the tertiary care setting to better match patients with the right level of care.
- In the Southeast, hospitals are working to build a more coordinated and integrated mental health system.
- In the Southwest, efforts have been targeted toward increased utilization of hospice services to better support patients and families at a patient's end of life.
- In Central Vermont, the focus is on deepening engagement with the continuum of care partners to strengthen preventative care.

Together, these regional efforts connect local priorities to Vermont's statewide transformation goals.

Act 68 Grant Opportunity

Act 68 allocated $2 million to AHS to award grants to hospitals in state fiscal year 2026. The grants are to support hospitals that, "actively participate in health care transformation efforts to assist them in building partnerships, reducing hospital costs for hospital fiscal year 2026, and expanding Vermonters' access to health care services, including those delivered via telehealth." On September 22, the Agency launched the Hospital Transformation Grant Opportunity to advance the development and implementation of hospital and regional transformation plans.

All eligible hospitals are participating in this grant opportunity and have submitted final transformation plans. As of the time of this report, many hospitals have begun work on grant funded projects including

service line analyses that will contribute to determination of future initiatives to support transformation.

Hospital Transformation Plans
All hospitals have submitted final transformation plans. These plans contain focused goals that are ready for implementation. Themes have arisen from the hospital planning process including shared services to create back-end efficiencies, moving care to more appropriate lower cost settings, optimizing care needs and resource allocation and restructuring service profiles to be more cost effective. Individual initiatives by hospital have been shared and details can be referenced here.

Analytics Support
AHS staff have vendors in place to provide technical assistance and analytical support. These supports are beginning to roll out to hospitals and provider groups and will ensure that optimal resources are accessible to support data-driven decision making throughout the transformation process. It is critical that resources to support both predictive modeling at the system-level and project-level monitoring and evaluation are available to all entities involved in this important work.

Primary Care Transformation

The Advanced Primary Care Transformation initiative continues to move forward following kickoff meetings and workgroup orientation activities held in spring 2026. The effort is intended to strengthen Vermont's primary care system through a more integrated, accountable, and team-based model that emphasizes affordability, access, quality improvement, and long-term sustainability. Planning is occurring alongside Rural Health Transformation funding opportunities, multi-payer alignment efforts, and broader health system reform activities. The transformation vision centers on whole-person care through coordinated delivery systems, stronger accountability measures and access standards, population health management, and payment modernization.

Key policy proposals under development include:

- Updated program standards,
- Enhanced payment approaches that combine prospective per-member-per-month investments with performance incentives, and
- Expanded practice supports through team-based care infrastructure and statewide learning networks.

Kickoff discussions and workgroup orientation activities highlighted six priorities:

1. Payment sustainability,
2. Workforce capacity,
3. Reducing administrative burden,
4. Specialty care coordination, mental health and hospital-primary care integration,
5. Community health team standardization, and
6. Stronger data infrastructure.

Planning includes development of a tiered care model—with increasing expectations related to access, prevention, care coordination, chronic disease management, and mental health and specialty care integration. Workgroups have been established with responsibility for informing standards, key performance indicators/quality measures, and payment model design. Standards development and payment framework planning will continue through 2026, with phased implementation anticipated beginning in 2027. Broader payer alignment and system transformation activities will continue through 2029.

The Blueprint for Health continues to advance implementation of Vermont's Rural Health Transformation Program (RHTP) investments through the release of Requests for Proposals (RFPs) and Notices of Funding Opportunity (NOFOs). These funding opportunities are designed to make investments in sustainable access to care through supporting workforce education and training, learning collaboratives, technical assistance, and implementation supports that will help practices adopt and sustain advanced primary care models.

In addition, approval has been provided to allow Rural Health Transformation Program funding to flow directly to practices to maintain pilot Mental Health/Substance Use Disorder (MH/SUD) integration staffing and Community Health Worker (CHW) positions. This funding model is necessary while broader sustainability planning continues. It is intended to preserve workforce capacity and avoid disruption to integrated, team-based care models that practices have established. The structure recognizes the critical role mental health integration and community-based supports play in improving access, coordination, and patient outcomes. Direct investment during this transition period provides continuity for participating practices while longer-term payment, financing, and sustainability strategies continue to be developed as part of Vermont's broader primary care transformation efforts.

CLOSING

AHS remains committed to transparently communicating initiatives that reduce spending and improve affordability for Vermonters, consistent with the intent of Act 68. While not all savings are immediately measurable, particularly those tied to care delivery changes or population health investments, the Agency is working to track progress where possible and to build the analytic capacity needed to model longer-term impacts. We will continue regular check-ins with legislative partners to ensure this report evolves to meet both the intent of Act 68 and the state's broader health care reform goals.

Appendix: Timeline of Hospital Care Transformation Activities

AHS Hospital Care Transformation Activities	2025							2026									
Activity	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct
Contractor technical assistance to support hospital service line analysis, health service needs assessments, and tiering of services																	
AHS-led regional hospital transformation meetings																	
Development of hospital and regional transformation plans, supported by Act 68 Grants								Draft plans due		Final plans due							
Procurement of vendor support to enhance analytics capacity and modeling																	
CMS Rural Health Transformation (RHT) Program, part of federal H.R.1						App. closes	CMS funding awarded										
Implementation and monitoring of transformation initiatives																	