DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop S2-25-26
Baltimore, MD 21244-1850

State Demonstrations Group

July 7, 2026

Jenney Samuelson
Secretary
Vermont Agency of Human Services
280 State Drive
Waterbury, VT 05671

Dear Secretary Samuelson:

The Centers for Medicare & Medicaid Services (CMS) is notifying the state that the Medicaid hospital global budget (HGB) implemented by the Department of Vermont Health Access (DVHA) has not been approved by CMS in accordance with the requirements in Vermont's Global Commitment to Health section 1115(a) demonstration (Project Number 11-W-00194/1) special terms and conditions (STCs). While we recognize the state's interest and commitment to implementing value-based payment (VBP) arrangements like a HGB, the state must comply with STC 6.4(i)(iii), which requires that any payment arrangements between the Agency of Human Services (AHS) or DVHA and providers that are a VBP style fee schedule must meet the prior approval requirements for state directed payments in 42 CFR 438.6(c)(2) consistent with payment arrangements described in 42 CFR 438.6(c)(1)(i) and (ii). Additionally, the state must comply with all requirements for actuarial soundness and rate development standards in 42 CFR 438.4 through 438.7 as required in STC 6.3(a). Without the authority for implementing the Medicaid HGB, these standards in 42 CFR 438.4 through 438.7 prohibit the state from including the impact of the Medicaid HGB in the development of the certified capitation rates. This letter serves as a written notice that the state is not compliant with STCs 6.3(a) and 6.4(i)(iii). Accordingly, CMS requests the state take the corrective actions outlined below. If the state does not take these actions, CMS will not be able to find the state's calendar year (CY) 2026 capitation rates actuarially sound as required by the regulations in 42 CFR part 438 and may initiate procedures under 42 CFR 431.420(d)(1) to terminate or suspend the demonstration for failure to comply with the STCs.

Requested Corrective Actions

To comply with the STCs, the state should take the following corrective actions:

1. Within 60 calendar days from the date of this notice, DVHA should cease making HGB payments to the participating hospitals and begin making payments in line with the payment methodology used for providers who are not participating and being paid the Medicaid HGB.
2. Within 60 calendar days from the date of this notice, AHS should remove HGB payments from the applicable CY 2026 capitation rates and submit a revised rate certification for CMS review and approval. CMS prefers that the revised certification be submitted as a rate amendment that only describes the impact of removing the HGB; the data, assumptions and methodologies used to develop the impact; and the final certified capitation rates. Historical encounter data under the HGB may not be used for future

capitation rate development unless the state receives CMS prior approval of the HGB as required under the STCs and applicable cross-referenced regulations in 42 CFR 438.4 through 438.7.

3. Within 6 months of the date of this notice, DVHA should reprocess all HGB payments made to participating hospitals since January 1, 2026, in line with the payment methodology used for non-HGB participating providers. As part of claims reprocessing, the state should ensure that all encounter data and financial data reported to CMS comply with all applicable federal regulations including 42 CFR 438.818 and accurately reflect the payment rates under the applicable non-HGB payment methodology. If the capitation rate amendment results in changes to the payments for which the state has already drawn down federal financial participation (FFP), then the state should also correct CMS-64 reporting to reflect any necessary adjustments within the standard timeframe for claiming of FFP.

The state should send CMS written confirmation of compliance with these corrective actions within 30 calendar days of completing each corrective action.

Program Integrity

States are responsible for following all applicable federal law and regulations when they claim and use federal Medicaid matching funds and must fully comply with all applicable Medicaid statutes and regulations under a section 1115 demonstration, except where specific provisions have been expressly waived or identified as not applicable for that demonstration. This obligation includes all requirements in Title XIX of the Social Security Act and implementing regulations governing provider screening and enrollment activities, pre- and post-payment review claiming, payment methodologies and rate-setting, utilization controls, and program integrity including processes to identify, investigate, and refer suspected fraud, and methods to receive complaints and identify questionable practices. States must maintain effective systems and safeguards to prevent, detect, and address any fraud, waste, or abuse (FWA) in the delivery of and payment for Medicaid services, including referrals to law enforcement when appropriate.

States should have heightened monitoring and oversight mechanisms in place featuring robust internal controls to identify and remediate all vulnerabilities (including, but not limited to, FWA and beneficiary access issues) inherent in service areas approved as part of a demonstration. At any time, CMS may request that the state provide a plan detailing the state's systems and safeguards to prevent, detect, and address any FWA relative to this demonstration. Failure to meet program integrity obligations under federal statutes and regulations or under the terms and conditions of this demonstration approval may result in compliance actions or other enforcement measures that could include requirements to develop and implement corrective action plans, withholdings, deferrals, disallowances, and termination of demonstration authority.

We look forward to our continued partnership on the Global Commitment to Health section 1115(a) demonstration. If you have any questions, please contact your project officer, Rabia Khan, at Rabia.Khan1@cms.hhs.gov.

Sincerely,

Sarah Aker Digitally signed by Sarah Aker
Date: 2026.07.07 10:54:35 -04'00'

Sarah Aker
Acting Director

cc: Jill Mazza Olson, Vermont Agency of Human Services
Ashley Berliner, Vermont Agency of Human Services
John Giles, CMS, Center for Medicaid and CHIP Services
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