Southwestern Vermont MEDICAL CENTER
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August 10, 2018

Ms. Pat Jones
Director of Health System Finance
Green Mountain Care Board
144 State Street
Montpelier, VT 05602

Dear Ms. Jones

Please find below Southwestern Vermont Medical Center's (hereafter "SVMC", "Hospital" or "Medical Center") response to the questions in your July 30th communication. The SVMC leadership team looks forward to reviewing the FY 2019 budget with the Green Mountain Care Board (hereafter "GMCB") and yourself on August 27, 2018. Below are your questions with management's response following:

GMCB Questions

1. *Have the hospital's projections for FY 2018 changed?*

Management's Response:

The FY 2018 projections submitted with the budget was based on actual operating results through April 2018. Operational performance has improved mainly due to patient volume during May and July being slightly stronger than projected and overall operating expenses being lower than plan. Management now projects FY 2018 overall operating results to be at or slightly below budget with a projected operating surplus of $6.0 million compared to a budget of $6.3 million. The updated net patient service revenue projections are slightly below budget or approximately $159.1 million, total operating revenue of $164.0 million and total operating expense projections of approximately $158.0 million, respectively.

2. *Please explain factors driving increases in Bad Debt and Free Care from FY 2018 Budget to FY 2019 Budget (including policy changes if any).*

Management's Response:

The most significant contributing factors causing the increases in Bad Debt and Free Care are a combination of employers in the area moving their group insurance plans to high dollar deductible plans increasing self-pay portions of the cost of health care, and the Medical Center seeing more patients who have chosen not to have health insurance. The later could be due to higher costs of the exchange plans than in previous years. The Medical Center has seen increased applications for Free Care as a result of high deductible plans and the overall cost of health care coverage to small employers. Additionally, there has been an increase in non U.S. resident applications. The following page has charity care application summary information.

The Medical Center's self-pay receivables have increased over the past years, in spite of increased activity and resources at the Medical Center. Below is the self-pay receivables from FY 2014 through the present. As the table demonstrates the self-pay receivables are increasing:

	Amounts (rounded)
FY 2014	$3,550,000
FY 2015	3,330,000
FY 2016	3,700,000
FY 2017	3,800,000
June 2018	4,450,000

These balances are the self-pay balances identified as of the respective balance sheet dates, however, there are increased co-insurance and deductible patient receivables imbedded in the commercial insurance categories, not included in these amounts.

Below is a table of charity care applications that was provided to the Health Care Advocate:

	Total Applications	***Household members***	***Approved***	***Total Denied***	***Denied income***	***Denied Incomplete Appl.***	***Pending***
2016	768	1,310	721	47	6	41	
2017	1,119	2,032	1,016	103	16	87	
Six months 2018	834	1,515	642	91	11	80	101
Annualized 2018	1,668	3,030	1,284	182	22	160	

As mentioned above FY 2018 activity is increasing. See question number 9.

3. Please provide more specificity about what is included in Other Operating Expense for FY 2017 Actuals, FY 2018 Budget and Projections, and FY 2019 Budget, and explain the variation from year to year.

Management's Response:

Other Operating Expense category includes a wide variety of costs such as; supplies, drug expense, food cost, purchased services, contract labor, service contracts, consulting, legal, utilities, dues, advertising, furniture and small equipment under capitalization limits, travel, continuing education and other administrative expenses.

The most significant variation in these expenses are due to increased drug costs, contract labor expense and new health reform initiatives as explained below:

- Drug cost are anticipated to increase by nearly 10% in FY 2019 or $1.4 million;
- New health reform initiative costs in this expense category total nearly $1.8 million in the FY 2019. These expenses include contracted psychiatric services in the emergency department of $200,000, Telemedicine services in the ICU expense of $341,000 and $1,000,000 for IT planning costs as well as others. Each of these initiatives are explained in more detail later in the narrative;
- Approximately $400,000 of costs previously classified under salaries and benefits are now reported as Other Operating Expense. This is due to the change from an employed security department model to a purchase service arrangement from Securitas Security;

- Contract labor expense is increasing by approximately $700,000. Contracted staff through Dartmouth Hitchcock in the Cancer Center accounts for approximately $460,000 of this increase;

Above are the major items. Inflationary increases are nearly $1,000,000 or approximately 2% over prior year's budget.

4. What has changed in Physician FTEs to show a decline of 8 physicians?

Management's Response:

As previously discussed with GMCB staff, there was a data entry error when entering physician FTE's in Adaptive Planning. The correct provider FTE's are as follows:

Projected FY18	*Budget FY18*	*Budget FY19*
94.4	98.3	95.8

The actual provider variance from FY 2018 Budget is a decline of 2.5 FTE's. This change is primarily due to in FY 2019 SVMC budgeted for current providers and any new provider *with a signed contract*. Open positions without active candidates for employment were not included in the budget. SVMC has current open provider positions in Internal Medicine, Neurology, Gastroenterology and Dermatology practices.

5. What areas of the hospital are increasing in Non-MD FTEs from FY 2018 Budget to FY 2019 Budget (the hospital mentions only 5 in its narrative)?

Management's Response:

A reconciliation of FY 2018 to FY 2019 Budgeted non-provider FTE's is as follows:

Budget FY 2018 FTE's	752.3
Dental CON FTEs	5.0
Total FTE Adjusted Budget FY 2018	*757.3*
FTE Changes	
Emergency Crisis Area (ECA)	3.7
Security (Outsourced)	(4.7)
Transitional Care Program	1.1
Pharmacy	1.6
Physical Therapy	1.0
Other changes	.4
Total changes	*3.1*
Budget FY 2019 FTE's	***760.4***

As discussed with GMCB staff there was an input error in the original submission. The above table correctly shows the changes.

6. Please explain the variation from FY 2018 Projections to FY 2019 Budget in Salary & Benefits per FTE-Non MDs.

Management Response:

The approximate 5.6% increase in Salary & Benefit expense per FTE from FY 2018 projected expense to Budget FY 2019 is primarily due to anticipated increases in employee benefits. A staff wage increase of 3% is budgeted in FY 2019. The FY 2018 projected employee benefit costs are running approximately 11.1% under budget as a result of the frozen defined benefit pension cost credit of $1.2 million that was not anticipated in the FY 2018 budget. *This is a **non-cash** credit*. Additionally, the self-insured Health Benefit claims are under plan in FY 2018.

The FY 2019 Budget assumes a reduction in the pension credit of over $500,000 due to market conditions. The FY 2019 budget has anticipated a 7% increase in employee self-insured health benefit insurance costs. The pension and the self-insured employee health benefits insurance costs are the major drivers, however, SVMC anticipates higher costs in Workers Compensation and Dental Insurance in the coming years, as well.

It is worth noting that the State of Vermont System budgeted system average for FY 2019 is higher by 3.7% and the projected FY 2018 it is higher than SVMC by nearly 9%.

7. What types of assets are reported in Other Long Term Assets to cause the increases in FY 2018 Projections and FY 2019 Budget?

Management Response:

Other Long Term assets are primarily amounts due from affiliates. The amounts due from affiliates are for services and support of related organizations that provide important services to the patients in SVMC's service area. The increases are attributed to SVMC's border state activities which include a physician practice in Williamstown, Massachusetts and a primary care practice and nursing home in Hoosick Falls, New York.

A significant portion of the increased amount will be from the Nursing Home in Hoosick Falls due to timing of the receipt of funds, from the State of New York $2.9 million grant to improve the Nursing Homes infrastructure. This is a timing difference. The projected costs will be spent and the project completed prior to September 30, 2018, however, the reimbursement for the majority of the grant will occur after September 30th.

8. Please explain the calculation of the estimated value of a 1% rate/price increase; the hospital's estimate varies from the GMCB staff estimate.

Management Response:

The estimated value of a 1% rate/price increase is calculated using SVMC's revenue budgeting model that calculates the impact of raising rates in particular services with historical charges and collection rates grouped by payer. SVMC's calculation is based on the commercial increase only and does not include the Medicare proposed payment increase. The Medicare payment increase in not dependent on raising charges.

Below will show the difference in calculations:

Increase in NPSR due to commercial charge/rate increase	$2,202,495	***(1)***
Increase in NPSR anticipated from Medicare payments of approximately 1.00%	393,271	
Total increase due to charge increase and Medicare proposed payment increases	***$2,595,766***	***(2)***
SVMC's NPSR increase due to charge increase to commercial payers	$2,202,495	***(1)***
Commercial payer rate increase submitted by SVMC	3.25%	
SVMC calculated value of 1% rate increase	***$677,694***	
GMCB increase due to charge increase to commercial payers plus Medicare payment increase of approximately 1%	$2,575,766	***(2)***
Commercial payer rate increase ***used*** by GMCB	3.20%	
GMCB calculation	***$811,177***	

The GMCB calculation of the $811,177 includes the Medicare payment increase which is not a result of the requested charge/rate increase by SVMC. Also, the GMCB utilized 3.20% when SVMC is requesting 3.25%. SVMC believes the $811,177 is an overstatement of realizable Net Patient Service Revenues that can be achieved from a charge/rate increase of 1.00% to commercial payers

9. The hospital indicates that most denials of free care due to incomplete applications. Please describe strategies to assist patients in completing their applications.

Management Response:

SVMC employs two (2) full time staff members who are dedicated to assist patients with free care and Medicaid applications. In addition, SVMC has six (6) patient financial advisors that are knowledgeable of the application guidelines and can also answer patient questions with regards to financial assistance applications. In some cases patients or families are unwilling to provide the financial information necessary to complete the application. This causes applications to be incomplete and denied. Continued education is underway with staff and patients. Question #2 provides additional information.

10. For the hospital's Health Reform Investments, please summarize evidence supporting each investment and identify quality measures addressed by the investment.

Management Response:

- Mental Health Investments – In FY 2019 the Hospital plans to invest in operationing costs an additional $331,000 to meet mental health needs to the community. Briefly the quality measures addressed by this investment is to reduce deaths from suicide and drug overdoses, increase rate of engagement 30 days after initiation of treatment, increase the use of Vermont's prescription drug monitoring system, a new measure to be evaluated by the consortiums, as well as others

- Telemedicine – ICU - SVMC is investing in Telemedicine services in the intensive care unit that will provide 24 hour monitoring and access to provider specialist at Dartmouth Hitchcock. The goal of this program is to keep patients "closer to home", which should reduce the cost of healthcare to Vermonters and improve the quality of care provided.

- Planning costs for EPIC information technology system - SVMC is investing in planning for transition to a new EPIC information technology system (IT) with Dartmouth Hitchcock. SVMC believes transitioning to a new IT system will allow the hospital to be equipped to achieve health care reform goals. Preliminary preparation costs are estimated at $1 million in FY 2019. A certificate of need is expected to be filed in FY 2019.

- Transitional Care Program - SVMC is continuing to expand the Transitional Care Program in the FY 2019 budget approximately $121,000 of new costs were included. Total direct cost of the program in total is over $700,000, annually. In 2014, SVMC launched the Transitional Care Nursing Program to reduce admissions/readmissions, observation episodes and emergency department visits for high risk patients. Transitional Care Nurses partner with primary care practices to effectively manage care for identified high risk patients with chronic conditions. Transitional Care Nurses recognized the need for community collaboration and teamwork across all setting of providers. Gaps in care were identified and new programs were created under the program treat this population.

The following table highlights the interventions and outcomes achieved by the program:

Program	Target Population	Intervention	Outcome
Transition Care Nursing	People with chronic diseases (N = 914)	Nurses partnering with people and their families to educate them and teach self-management techniques	**44%** reduction in hospitalization
Community Care Team	People with mental health and substance use disorders (N = 160)	Health promotion advocate in the ED navigates and connects people to community resources and support	**37.7%** reduction in ED visits after one year.
Integrated Diabetes Education	People with pre-diabetes	Diabetes educators embedded in primary care to facilitate patient centered goal identification to improve health, increase activity, and improve control of blood sugars	**12%** reduction in average A1C post intervention
INTERACT	Residents and short-term rehab patients at CLR	Improve communication within SNFs, increase early identification of changes in condition and standardize transfers to the ED	**15.5%** reduction in the 30-day readmission rate among nursing home residents

11. GMCB may provide a simple table to each hospital to clarify accounting of ACO-related revenue and expenses.

Management Response:

The completed table is attachment 1.

The management team of SVMC believes that the above responses will meet the needs of your staff and the GMCB. If you should need further clarification please do not hesitate to contact myself at 802-447-5011 or Jim Roy at 802-447-5040. We look forward to seeing you and the GMCB team at our presentation on August 27th.

Sincerely,

Stephen D. Majetich, CPA
Vice President, Finance / CFO

Attached: Attachment 1

	2018 Budget ($)	Adaptive Account Name	2018 Projection ($)	Adaptive Account Name	2019 Budget ($)	Adaptive Account Name
Gross Home Hospital Spend for OCV Lives*			$ 5,881,380	Fixed Prospective Payments- Hospi	$ 7,500,588	Fixed Prospective Payments- Hospital
Gross Value Based Incentive Payments*			259,381	Fixed Prospective Payments- Hospi	340,464	Fixed Prospective Payments- Hospital
(Value Based Incentive Deduction)*						
(Participation Deduction)*			(752,662)	Fixed Prospective Payments- Hospi	(1,063,560)	Fixed Prospective Payments- Hospital
Gross Revenue Entered into Adaptive**			16,244,219	Medicaid-Instate-Hospital	22,174,859	Medicaid-Instate-Hospital
Contractual Allowances Entered into Adaptive**			(16,244,219)	Medicaid-Instate-Hospital	(22,174,859)	Medicaid-Instate-Hospital
ACO Risk Accounted for (if any)			500,000		-	
Total ACO Risk***			500,000		706,606	
Attributed Lives (#)			3,467		3,467	

*Please indicate the Adaptive account used (Revenue accounts can be found on the 'Payer Revenue (Input)' tab on this spreadsheet). If anything is recorded in an expense account or on the balance sheet, please indicate where in Adaptive it is recorded.

**In order to account for the claims associated with OneCare attributed lives, many hospitals have included the total gross revenue related to the attributed lives by payer, then took a deduction through contractual allowances. If your hospital did this, please enter the dollar value and accounts used.

***Please list the risk amount regardless of whether you are recording anything.