

Green Mountain Care Board
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Con Hogan
Jessica Holmes, PhD
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April 28, 2017

Thomas Dee
Southwestern Vermont Medical Center
100 Hospital Drive East
Bennington, VT 05201

Dear Mr. Dee:

After a series of public meetings to review and discuss the hospitals' FY 2016 budget performance, the Board on April 20, 2017 voted to direct six hospitals that exceeded their NPR targets and achieved higher-than-budgeted surplus levels to reduce rates in their FY 2018 budget submissions. The Board expects that the lower hospital rates will be reflected in lower commercial insurance premiums in the upcoming year.

A. The Board made the following findings relative to SVMC:

1. SVMC experienced an overall NPR increase of \$7.9 million, 5.5% more than the NPR approved by the Board in the FY 2016 budget.
 - Medicare: \$ 5.9 million
 - Medicaid: \$ 0.8 million
 - Commercial \$ 1.2 million
\$7.9 million
2. SVMC's operating surplus increased by \$0.9 million.
3. The variances are related to pharmacy \$5.5 million, utilization \$1.5 million, and \$1 million in savings realized from lower bad debt and free care.
4. Expenses were \$7.7 million higher than budget.
5. SVMC's 3-year growth rates find NPR and expenses lower than the state medians.
6. Days cash on hand (160) including cash held at the parent organization is higher than the state median (135).
7. Age of plant is higher than the Vermont median.
8. SVMC increased rates 3.8% in FY 2016, and received a 3.4% rate increase for FY 2017.

9. Per unit costs were lower than budget in FY 2016.

10. Current year performance finds NPR 3.3% lower than budget YTD through February.

11. For the period 2013-2015, the NPR was lower than budget 1.1% on average.

B. Based on the testimony presented by SVMC, its April 17, 2017 letter to the Board, and the principles underlying the Board's March 31, 2017 budget guidance intended to limit growth and improve quality outcomes, the Board directs SVMC to account for the impact of FY 2016 budget performance results in its FY 2018 budget submission. Specifically, SVMC must use 50% of the 2016 operating surplus excess (\$458,000) to offset FY 2018 rate increases.

With an excess valued at a 0.55% increase in overall prices/rates, we expect the rate for FY 2018 to be no more than 2.85% (0.55% lower than the FY 2017 rate of 3.4%).

Further, the Board requires that your FY 2018 budget submission address the following:

1. To the extent that actual FY 2017 net patient revenues exceed budgeted net patient revenues, explain,
 - a. Reasons for higher than projected NPR,
 - b. Extent to which commercial rates could have been lower, and
 - c. Your plan to bring the budget into compliance.
2. Identify and fully explain in your narrative all items or assumptions that could materially impact the budget, including:
 - a. Bad debt and free care trends,
 - b. Revenue estimates and assumptions for each payer type,
 - c. Significant payer mix utilization shifts,
 - d. All prior year outstanding revenue settlements,
 - e. Expenditure projections, and
 - f. Any other unusual events.

We appreciate your cooperation in this process. Please feel free to contact me, Lori Perry or Janeen Morrison if you have any questions about budget policies, instructions, schedules, or the Adaptive Insights budget tool.

Sincerely,

s/Michael Davis

Michael Davis

Director of Health System Finances

Green Mountain Care Board

Cc: Green Mountain Care Board Members
Stephen Majetich, CFO