



April 18, 2017

Via email to [Lori.Perry@vermont.gov](mailto:Lori.Perry@vermont.gov) and [Conor.Kennedy@vermont.gov](mailto:Conor.Kennedy@vermont.gov)

Green Mountain Care Board  
89 Main St., Third Floor  
Montpelier, VT 05620

Re: 2016 Fiscal Year Net Patient Revenue Excess Discussions

Dear Green Mountain Care Board members:

Thank you for the opportunity to present additional data in advance of any action you may take on dealing with the 2016 excess net patient revenue discussion.

There are many issues that have and continue to affect Northwestern Medical Centers Net Patient Revenue variances. As you will see in the information provided below much of our increases have been driven by our continued commitment to our community to provide necessary services to our residents locally. Although nearly all of our growth over the past five years have been driven by this it has not prevented us from reducing rates in conjunction with the GMCB in order to adjust for our historical success.

Below is a list of current, historical and future issues that should be considered as the board makes its final decision on the 2016 Net Patient Revenue Excess for NMC:

- As outlined by GMCB administrative staff our net patient revenue excess for 2016 is \$1,898,370.
- **Historical Issues:**
  - As we have presented in previous meetings and in particular at our budget hearings held back in August for the 2017 budget process all of the excess net patient revenue for our organization has been driven by providing appropriate access to care and the maturity of that access. Attached is a matrix that shows that hospital net patient revenue over the last 5 years has only grown on average by less than 1% annually. At the same time net patient revenue associated with the growth and maturity of our physician services has grown on average by 22% annually.
  - After several years of growth in net patient revenue driven by the growth in access to care outlined previously we implemented a rate decrease in 2016 that resulted in a reduction of net

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patient revenue of \$4 Million per year. With this rate decrease in affect for the last two fiscal years 2016 and 2017 that will be a total reduction in net patient revenue of \$8 Million.

- In developing the 2017 hospital budget we felt that it was necessary to implement a rate increase equal to 2.9% or \$1.6 Million. As the board deliberated the impact of this increase coupled with our proposed bad debt and charity care budget we made some changes to our budget submission. This change included reducing our proposed bad debt and charity care percentage as well as reducing our rate increase. Ultimately the board rejected the proposed rate increase and ordered us to have a 0% rate increase. We believe that this change in our rate request was due in some part to our anticipated overage in 2016 net patient revenue. Reducing our rates further would be in essence a double adjustment to our 2016 overage.

- **Current Issues:**

- The Legislature is proposing to reduce DSH payments by 20%, or maybe even more, which will result in a \$360,000 loss of revenue for us. As you know DSH revenue for NMC is approximately \$1.8 Million. This revenue is increasingly at risk and the loss of this revenue is a direct impact to future rate issues.
- The states inability to fund the implementation of the all payor waiver and therefore not being able to access matching federal funds has pushed that responsibility to the hospitals. NMC's portion of that cost in 2017 is estimated at \$350,000. Assuming no change in the states position in 2018 that cost is estimated to grow to \$625,000. All of these issues have a direct impact on future rates. Reducing rates will have a direct impact on our ability to participate in these initiatives and therefore delay the implementation of the much needed all payor waiver for payment reform.
- NMC is currently participating in Vermont Medicaid Next Gen with the risk of losing \$182,000. In 2018 this risk will expand to other payors including Medicare. The preliminary estimate, based on anticipated lives at risk, would mean a risk level of \$2.6 Million. Making rate reductions at this stage in this risk taking pilot would be very risky and could prevent our ability to build on the current risk model.
- Over the course of the last year hospitals across the state have been working with DVHA to address the issue of provider based payments to hospitals. There have been reductions in payments from DVHA related to this issue that have impacted NMC by approximately \$400,000 annually
- Currently we are losing money for the first time in years with a loss through 5 months of nearly \$1.2 Million. We have seen a sharp increase in Bad Debt and Charity Care. We knew this was an area of risk when we presented our budget as we pushed our 2017 budgeted levels to be similar to 2016 levels even though there was insufficient history to know that this would be maintainable. Our current financial difficulty is driven by lower volumes with our challenge of adjusting staff levels in a timely manner. Although lower volumes are the ultimate goal we cannot react to short term changes in our activity.

- **Future Issues:**

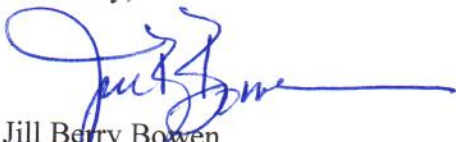
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- Next week your board will hear discussion on Act 143 and payor parity. This issue has not been finalized so it is uncertain the impact that the ongoing discussion will bring but it is likely to negatively affect revenue.
- We potentially face additional threats with the proposed Ambulatory Surgery Center. We make approximately \$1 Million per year on the services that are at risk. These gains are used to continue to invest in other necessary services to our community that may not be profitable. This potential loss in revenue would be devastating to NMC and may affect future rate increases.
- There will continue to be an increasing need to invest in population health in order to support the risk taking that hospitals are moving forward with. In particular we have been actively partnering with several hospitals including UVM Medical Center, BC/BS and One Care in order to ensure a consistent primary prevention methodology anchored through Rise VT. Although we feel strongly that a rate reduction is not warranted at this time if the board feels otherwise we feel those resources should be reinvested in population health and not given directly back to the insurance companies.
- **Conclusion:**
  - When you start adding up these items the potential impact to NMC is devastating. We have been a leader in the transformation of healthcare and will continue to be as we know it is necessary. We have been able to reduce our cost per adjusted admission in each of the last three years but it may not be enough with all these challenges. We have clearly been successful over the last decade. This has allowed us to build a strong balance sheet. We are using that balance sheet to invest in our community with our Master Facility Plan. We have several additional projects that will need to be done in the next several years including addressing the pain, addiction and mental health crisis. Together these projects are estimated to significantly impact our balance sheet with the use of approximately 100 days cash on hand.
  - Based on the information that we outline above it is our opinion that no rate adjustment is warranted for NMC at this time. If you feel that the board must take action we would recommend that you exercise Option D as outlined in the summary put together by your administrative staff.
- **Please don't make our historical success be the downfall of the future.**

I apologize for not being able to make the meeting on Thursday but thank you again for the opportunity to present and highlight this additional information.

Sincerely,



Jill Berry Bowen  
Chief Executive Officer

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