Southwestern Vermont Medical Center
Operating Budget
Fiscal Year 2019

1. Executive Summary

Southwestern Vermont Medical Center's (hereafter "SVMC" or "Medical Center") Operating Budget for Fiscal Year (hereafter "FY") 2019 has a planned operating gain of approximately $6.1 million or an operating margin of approximately 3.59%. The excess of revenues over expenses including non-operating activities is approximately $6.8 million. Table #1 provides the high level comparative summary statement of operations.

Table #1 – Comparative Summary Statement of Operations

	FY 2017 Actual	FY 2018 Projected	FY 2018 Budget	FY 2019 Budget
Net patient service revenues	$152,602,903	$153,895,393	$160,078,864	$158,423,884
Fixed prospective revenue	0	5,388,099	0	6,777,492
Total net patient service revenues	*152,602,903*	*159,283,492*	*160,078,864*	*165,201,376*
Other operating revenues	4,564,357	5,027,206	3,963,786	5,127,206
Total operating revenues	*157,167,260*	*164,310,698*	*164,042,650*	*170,328,582*
Operating expenses	*151,391,369*	*158,577,474*	*157,736,630*	*164,211,565*
Operating gain	*5,775,891*	*5,733,224*	*6,306,020*	*6,117,017*
Non-operating activities-net	2,034,839	834,867	685,862	649,214
Excess revenues over expenses	***$7,810,730***	***$6,568,091***	***$6,991,882***	***$6,766,231***

The Net Patient Service Revenue growth is slightly over $5.1 million or a 3.2% increase over FY 2018's approved budget. This increase is a combination of a requested effective rate increase "…target of 2.80% with an additional allowance of 0.4%…." as outlined in the March 29th letter from the Green Mountain Care Board (hereafter "GMCB"), and changes in volumes from the FY 2018 budget. Additionally, the continued efforts to improve the access to primary care and enhancing specialty services are provided in the budget.

Table #2 on the following page is a Comparative "High Level" Statement of Cash Flows for the FY 2019 budget. Included on the statement are the material drivers of Medical Center's cash flows.

The FY 2019 Operating Budget will generate a positive gain from operations of over $6.1 million. After the cash needs, including capital purchases, of the organization, the expected cash balance will increase over $4.4 million from projected FY 2018 which represents approximately eight days cash on hand. The significant change over FY 2018's budget is the funding of the Medical Center's pension plan. In FY 2018, the Medical Center suspended funding during the evaluation of a plan termination. In FY 2019 the plan termination decision will be decided.

Table #2 – Comparative "high level" Statement of Cash Flows

	FY 2017 Actual	FY 2018 Projected	FY 2018 Budget	FY 2019 Budget
Operating gain	*$5,775,891*	*$5,733,224*	*$6,306,020*	*$6,117,017*
Add: Non-cash and non-operating activities				
Non-operating gains	2,034,839	834,867	685,862	649,214
Depreciation expense	6,042,316	6,179,474	6,531,292	6,309,783
Pension credit	(810,854)	(1,319,568)	(250,000)	(700,000)
Subtotal	*13,042,192*	*11,427,997*	*13,273,174*	*12,376,014*
Other operating activities	*(4,547,599)*	*3,460,904*	*(1,891,058)*	*(1,512,297)*
Cash provided by operations and non-cash activities	*8,494,593*	*14,888,901*	*11,382,116*	*10,863,717*
Less: Investing and financing activites				
Capital purchases	(10,680,485)	(6,000,000)	(7,250,000)	(6,000,000)
Pension plan funding	(3,850,000)	(2,950,000)	(4,200,000)	
Long term debt payments	(494,507)	(448,392)	(456,561)	(418,585)
Cash used for investing and financing activities	*(15,024,992)*	*(17,148,392)*	*(10,648,392)*	*(6,418,585)*
Net increase (decrease) in cash and equivalents	***($6,530,399)***	***($2,259,491)***	***$733,724***	***$4,445,132***

The past few years the Medical Center has invested in itself from cash reserves and investment earnings from its parent organization. The Medical Center reports 29.4 day's cash on hand, however, the Medical Center's and its parent organization consolidated day's cash on hand and investments are projected to be approximately 189 days and 180 days if the Pension Funding will recommence.

This budget was prepared utilizing the current reimbursement models which SVMC participates in. The Medical Center has been participating in the Medicaid "risk model" effective January 1, 2018. Management is reviewing participation in the Medicare "risk model" but financial information necessary to make a determination won't be available until late July or August. Analysis of that information and a Board of Trustees decision to participate or not would not occur until September. This budget was prepared using known information and trends through May 31, 2018.

Developing this budget the Medical Center evaluated its overall mission, utilized its Community Health Needs Assessment (hereafter "CHNA"), evaluated the changing healthcare landscape and planned to assure that high quality patient care can be sustained at SVMC today and in the future. Operating costs for health reform and innovation initiatives were included in the budget.

OneCare participation fees of $1,100,000 for FY 2019 are included. The Hospital also provided an additional $200,000 for a contract with the local mental health care provider, United Counseling Services (hereafter "UCS) in Bennington to provide increased coverage to address the mental health needs of inpatient, observation and emergency room patients. SVMC is also working with UCS to provide services to the drug addicted patients in the community through a program called the Intensive Medication Assisted Treatment Program (hereafter "IMAT"). In the budget $146,000 has been included for this program.

The Medical Center also developed a Telemedicine program that provides physician support in the emergency room, Express Care, for neurology service and intensive care through Dartmouth Hitchcock. Total new costs of approximately $341,000 has been included in the budget for this program, primarily for the Telemedicine ICU program to be launched in August 2018.

The Medical Center has also included $1 million in the FY 2019 for planning evaluation and preparation costs related to a new health information technology system. A CON will be submitted in the fall for the installation of the new system but significant planning must be done in advance of implementation and CON submission.

An additional 3.65 FTE's have been budgeted to staff the Emergency Crisis Area (hereafter "ECA") which is a unit off Emergency Department used to care for patients with mental health needs and patients awaiting inpatient mental health beds. An additional $131,000 has been budgeted for the cost of the additional staffing above FY 2018 budgeted levels.

There are costs included in the budget related to the Hospital's CHNA which includes many other initiatives in the community. Included is the continued

financial support to the local free clinic, wellness and community building initiatives.

Below are summary points of material interest included in the budget:

Revenue—Rate/Price

- The effective charge / rate increase of 3.25% is being requested;
- Included in the budget is an increase in Medicare reimbursement for FY 2019;
- No Medicaid reimbursement increase has been budgeted for FY 2019;
- Vermont Disproportionate Share Payments (hereafter "DSH") are budgeted at $1,021,412 or an decrease from FY 2018's amount by $22,198;
- Indigent care (bad debt and charity care) increased by over $1.5 million.

Revenue—Volumes/Services

- Cancer Center volume increase, resulting in revenue increases in drugs sold;
- The budget includes increased admission volume in the ICU due to the implementation of Telemedicine ICU program. This service will allow SVMC to admit patients that were previously transferred to other hospitals. These patients will be admitted to the SVMC ICU and monitored 24 hours a day through the Telemedicine service provided by physicians at Dartmouth Hitchcock;

Other Operating Revenue

- Other operating revenue is budgeted to increase primarily as a result of expanding the 340B Contract Pharmacy Program.

Operating expenses

- A 3% salary increase was included, effective May 2019, plus 1% market adjustment factor was included;
- Full Time Employee Equivalents (hereafter "FTE's") of 763.6 are 4.8 FTE's higher than FY 2018's budget;
- The pharmacy drug costs are budgeted to increase by approximately $1.4 million or 9.8%, budget to budget, due to the increased volume and higher cost of oncology drugs;
- Planning and system preparation costs of approximately $1,000,000 are budgeted for a new health information technology system assessment;
- Saving have been budgeted to medical supplies, drugs and other supplies as a result of the planned affiliation with Dartmouth Hitchcock as well as other cost saving initiatives and place holders.

Other Highlights

- The FY 2019 capital budget and investments is $6,000,000.

2. Payment and Delivery Reform

Describe how the hospital is preparing for and investing in value-based payment and delivery reform and implementation of the All-Payer Model for FY 2019 and over the next five years.

A. Has the hospital signed a contract with OneCare Vermont?

SVMC signed a risk contract with OneCare Vermont to cover the Medicaid population effective January 1, 2018.

B. What is the amount of FPP the hospital expects to receive in FY 2019 based on estimated attributed lives?

SVMC has budgeted the following revenue and administrative withhold for OneCare based on current Medicaid attributed lives:

Fixed Prospective Payment	$7,500,588
Less: Fixed Prospective Payment - Deduction	(1,063,560)
Population Health Management payment	138,408
Complex Level 2	95,580
Primary Care Case Management	106,476
Total	***$6,777,492***

C. What is the maximum upside and downside risk the hospital has assumed?

The maximum upside and downside risk assumed by SVMC is approximately $500,000. This is based upon the CY 2018 Medicaid preliminary information.

D. How is the risk (up-and downside) accounted for in the financials?

i. How will the hospital manage financial risk while maintaining access to high quality care and appropriate levels of utilization?

SVMC is committed to quality of care for all patients. The philosophy of the Hospital for many years as evidenced by the Transition Care Nursing program is early intervention and monitoring is important. This allows the care teams to prevent inpatient and emergency room events which are well documented “high cost” services. Additionally, the Blueprint teams are

managing chronic diseases in the outpatient settings, preferably the physician office. If effectively managed the cost of care will be reduced and resources will need to be reallocated within the Health System.

The team at SVMC is concerned about the cost of care outside of the control of SVMC. When patients go to specialists outside of OneCare network or out of state the local teams have very little control of the cost of care, this is risk to SVMC and the State.

SVMC is recording a prorated monthly amount of the maximum liability on the financials until enough history is available to determine estimated settlement amounts. Since the reconciliation will not occur on the Medicaid CY 2018 until SVMC is significantly into FY 2019 we will continue with our conservative recording.

ii. How will the hospital track and ensure that provider financial incentives do not have a negative impact on patient care?

Management is developing indicators to assure that quality of care is maintained. As we get data management will assess.

E. What amount of Other Reform payments does the hospital expect to receive from OneCare Vermont by the end of calendar year 2018? (e.g., payments from OneCare's Value-Based Incentive Program based on quality performance)

SVMC expects to receive $32,500 in additional reform payments from OneCare Vermont as partial funding for a Rise VT director to launch a primary prevention campaign locally.

3. Community Health Needs Assessment

Describe the hospital's initiatives addressing its population health goals as identified in the Community Health Needs Assessment.

SVMC's most recent CHNA was completed in 2015. SVMC is in the process of updating this assessment per the three year cycle mandated by the Patient Protection and Affordable Care Act. We anticipate the updated CHNA to be completed and the report available this fall. The priority health needs identified in 2015 were;

- Access to care – specifically primary care and dental services;
- Obesity and healthy behaviors – particularly addressing nutrition exercise and community development;

- Mental, Behavioral Health and Addiction – recognizing the need to expand treatment options.

Early indications from the current CHNA suggest that the health needs have remained consistent for over a decade. The significance and persistence of these needs suggests their origin in the social determinants of health – in particular the environment, social fabric, and economics of the region.

Since 2015 SVMC has been implementing an array of programs to address the community's health needs. Most notably has been SVMC's significant investment to increase access to primary care and dental services. In fiscal year 2015 SVMC provided 57,700 primary care visits. Since then, a series of strategic investments have expanded primary care visits by over 50%, such that 44,603 primary care visits were provided in the first six months of fiscal year 2018. Annualized that is over 88,000 visits.

Similarly, SVMC invested to construct and launch a dental clinic. SVMC Dentistry has treated over 1,000 individuals since opening in January 2018. Many of those treated are children on Medicaid insurance who otherwise would not have access to dental services. This service was highlight in the VT Digger on June 24th.

To begin to address the root causes underlying obesity, mental health and addiction, SVMC has launched and sustained a variety of community programs. These programs are as routine as sponsoring school based health fairs, providing healthy meals to cardiac patients and organizing community educational events to more innovative approaches including launching teen texting service and developing a local entrepreneurial hub. In fiscal year 2018, SVMC anticipates spending more than $300,000 on interactive and community communication programs addressing the social determinants of health. In fiscal year 2019, SVMC is budgeting even more investment in the communities it serves.

4. Quality Measure Results

Review Appendix IV, and provide a response to health service area, county or regional performance results for each of the All-Payer Model quality measures. Discuss outcomes, goals, and plans for improvement.

Table 1a: Blueprint Profiles – Blueprint – Attributed Residents (2016)

The Bennington HSA exceeds all measures, except the control of high blood pressure. Actions include 1) setting goals in primary care practices with action steps to improve the management of hypertension and, 2) collaboration with Support and Services at Home (hereafter "SASH") program in the management of hypertension and 3) implementation of the State-wide Hypertension Management Toolkit.

Table 1b: Behavioral Risk Factor surveillance System Survey

Bennington exceeds the target of individuals having a primary care provider. The rates of chronic disease prevalence for COPD, Diabetes and hypertension are higher than the target. Actions to address the higher disease prevalence include: pulmonary rehabilitation program, offering of tobacco cessation classes/supports in various locations across the HSA, diabetes educators available in primary care practices, offering of pre-diabetes program (3 cohorts in process) and setting goals in primary care practices with action steps to improve the management of hypertension and collaboration with SASH program in the management of hypertension. Universal risk screening is being implemented to address social determinates of health that may be negatively impacting chronic disease self-management. Feedback is provided to all Blueprint Primary Care Practices on their profile data trended over time with peer comparison data.

Table 2a: Blueprint for Health Hub and Spoke Profiles

Bennington HSA exceeds meeting the target of 155.4, for number of population ages 18 – 64 receiving Medication Assisted Treatment (hereafter "MAT") for Opioid dependence with a rate of 170.5. The Bennington Spoke program continues to recruit providers to participate on MAT. A barrier is that Bennington does not have the availability of methadone (Hub) services. The Hubs (Rutland and Brattleboro) are one hour driving distance, one way.

Table 2b: Vermont Department of Health Vital Statistics Data – Vermont Overdose Deaths by county of residence

Bennington HSA exceeds in meeting the Statewide goal of 2.2/10,000 rate of overdose deaths at 1.2/10,000. Screening Brief Intervention and Referral to Treatment (hereafter "SBIRT") screening takes place in the SVMC Emergency Department. There is an action plan to implement universal risk screening of the social determinates of health and referral to services for those persons who are identified at risk. SVMC and local Blueprint staff participate in community collaborations addressing the primary prevention of opiate Substance Use Disorder (hereafter "SUD").

Table 3: Vermont Uniform Discharge Data Set – Rate of Growth in number of mental health and substance use-related ED visits.

SVMC has had a decrease in the rate of growth in the number of mental health and substance use related ED visits of -11% compared the target of a 3% growth rate. This is due to multiple initiatives (see responses for questions 2a and 2b). In addition, SVMC has in place a Community Care Team that is comprised of community partners that meet monthly to address persons who use the ED on a frequent basis for mental health or SUD. The multi-agency partnership has resulted in individuals having a plan in place to address their disease and social determinates of health. Outcomes have shown a decrease in ED utilization by this population.

5. Mental Health

Provide the following information:

A. The number of mental health beds;

SVMC does not have mental inpatient health beds. Management has started a preliminary study to determine if it is financially sustainable in SVMC's service area.

B. The number of patients who waited in the emergency department for an available mental health bed at this hospital or at another facility;

In 2018, SVMC has seen an average of about 60 mental health patients per month, approximately 7% of those patients required transfer to an inpatient psychiatric unit.

C. The range and average time patients spend in the emergency department awaiting an appropriate mental health placement;

The average length of stay for mental health patients waiting for a bed has more than doubled from an average of 20 hours in 2013 to 45 hours.

D. Average cost per day for patients awaiting transfer;

SVMC does not have a cost accounting system that provides specific cost estimates based upon diagnosis and types of treatments in the Hospital or any area in the Hospital. The average costs provided below will be based upon the average cost of an emergency room patient that is not admitted and adding the budgeted costs of the ECA in the Emergency Room plus overhead costs. The *estimated* average costs, using the above methodology, the daily cost of a patient in the ECA could be over $1,200.

E. List and describe each initiative, program or practice the hospital has implemented, or plans to implement, that focuses on ensuring that Vermonters have access to high quality, timely, and appropriate mental health treatment.

SVMC with the help of a local mental health advocacy group and Mental Health consultants established a 3 bed ligature-resistant environment as an extension of our ED for Mental Health patients needing assessments or waiting for placement into acute mental health facilities

SVMC established a contract with UCS to provide on-site psychiatric consultants four hours a day, five days a week, and on call for off hours and weekends for ED and Inpatient populations that have a primary or secondary mental health diagnosis to assist with medication management and create appropriate patient care plans while these patients await an appropriate mental health care setting

SVMC has engaged all community agencies who provide services that address the social determinants of health in a Community Care Team who, with a patient's expressed permission, meet on a monthly basis to review the specific needs of those mental health patients within our community to ensure their needs are met without requiring an ED or Inpatient admission to meet those needs.

SVMC has partnered with the state to introduce SBIRT clinicians to do risk screening of ED and Inpatient populations to identify those patients who may be at risk for substance abuse to provide immediate counseling and connect them with ongoing support to treat their addiction.

SVMC is partnering with, Turning Point, a local agency for peer counseling for ED and Inpatients with addiction issues.

6. Patient access.

Provide wait times, by medical practice area, for the "third next available appointment," as defined by the Institute for Healthcare Improvement (IHI) http://www.ihi.org/resources/Pages/Measures/ThirdNextAvailableAppointment.aspx. For hospitals that do not use this measure, describe wait times and how they are currently measured.

SVMC utilizes the IHI definitions as a guide. The compilation of these measurements is a manual process in the SVMC practices. The team in the practices measures and will continue to measure quarterly. As with any measurement of this kind urgent requests are "put on the top of the list". Additionally when looking at primary care vs. specialty care, the measurements for the specialist are much higher.

At SVMC primary care practices there is also variation between physician, associate providers and respective locations. The new patient physical or routine visit is between 6 and 8 business days depending on the location. In the Internal Medicine practice the measurement is between 11 and 13 days. Several of the Specialist have over thirty days for a new patient unless deemed urgent.

The SVMC is working on the continued improvement on these measurements through assuring the providers and their schedules are up to date and the providers are meeting quality standards and just meeting volume standards.

7. Substance use disorder treatment programs.

Describe the hospital's substance use disorder (SUD) treatment programs, and provide the following information:

A. A description of the hospitals' full range of SUD treatment programs

SVMC SUD treatment approach is as follows:

Prevention

- There is a protocol for safe prescribing of opiates for persons post-operative recovery and discharge home;
- SVMC is the site of a 24/7 medication drop box. SVMC was the first hospital in Vermont to have a drop box;
- SVMC is represented on the Alliance for Community Transformation (ACT) a community SUD Prevention coalition;

Treatment

- SVMC participates in the Vermont Blueprint Hub and Spoke Program;
- The Women's and Children's Inpatient service has a "Safe Arms" program for the management for newborns diagnosed or at risk for opiate withdrawal;
- UCS (designated agency) provides crisis services for persons experiencing mental health or opiate use disorders;
- Staff from the Turning Point Recovery Center provides 24/7 on-demand peer support for persons and families diagnosed with SUD;
- A contract with a UCS provided psychiatry services for the emergency department and inpatient population;
- SVMC OB/GYN participates in the Blueprint Women's Health Initiative (hereafter "WHI") which includes 100% universal risk screening for social determinates of health and referral of women who screen positive to treatment programs.

Recovery

- There is a protocol for a person in MAT scheduled for elective surgery to have an addiction specialist consult to work with the surgeon and anesthesia on the management the individuals pain and treatment medications post operatively;
- Blueprint Spoke RNs provide on demand support to the inpatient population with a diagnosis of SUD.

B. The number of persons currently enrolled in medication-assisted treatment (MAT) programs and other SUD Programs.

- SVMC Deerfield Campus MAT panel = 45
- UCS IMAT panel = 60
- Safe Arms Program = 50
- WHI = 150+ (10 months) women screened positive and referred to appropriate resources.

C. The number of MAT providers and other SUD Providers employed by the hospital

There are two MAT Providers employed by SVMC:

- Peter Park, MD at the SVMC Deerfield Campus
- John McCellan, MD at the UCS IMAT program

SVMC holds the Bennington Blueprint for Health Grant. SVMC employs all the Spoke RN case managers that are embedded in the Bennington Spoke Practices.

8. <u>Health Reform Investments.</u>

Part I: Provide updates on all health reform activities submitted under the GMCB's extended NPR cap for FYs 2016 - 2018 including:

A. The amount of the investment;

B. The goals of the program;

C. Metrics and other evidence demonstrating the program's ability to meet these goals, highlighting metrics and other evidence that demonstrate alignment with the goals of the All-Payer Model;

D. Any other program outcomes, positive or negative;

E. Whether the program is ongoing or of limited duration, and why;

F. For any program that has been discontinued, describe how ending the program has or will be accounted for in past, current or future budgets.

Part II: Complete the Table at Appendix V.

SVMC has completed Appendix V. The Health Reform Investment will exceed the .4% of Net Patient Service Revenues as outlined in the Budget Guidelines.

9. Reconciliation.

Provide a reconciliation between FY 2018 approved budget and FY 2018 YTD, showing both positive and negative variances. Explain the variances.

Table #3 is the year to date Statement of Operations for the eight months ended May 31, 2018 with significant variance explanations that follow:

Table #3 – Statement of Operations for the eight months ended May 31, 2018

Southwestern Vermont Medical Center
Statement of Operations

	Eight months ending May 31, 2018		
	Actual	***Budget***	***Variance***
Operating revenues			
Net patient service revenues	$107,233,634	$105,732,961	$1,500,673
Less: Provision for bad debts	4,203,180	3,221,717	(981,463)
Net patient service revenues	*103,030,454*	*102,511,244*	*519,210*
Fixed prospective revenue	2,725,724	2,725,724	
Other operating revenues	3,154,446	2,642,528	511,918
Total operating revenues	*108,910,624*	*107,879,496*	*1,031,128*
Operating expenses			
Salaries and wages	32,382,087	32,226,419	(155,668)
Employee benefits	8,462,115	9,704,334	1,242,219
Supply expenses	7,440,885	7,732,133	291,248
Pharmacy drug\supply expense	9,460,702	8,847,143	(613,559)
Purchase services and other expenses	37,492,450	35,665,424	(1,827,026)
Provider tax	6,173,508	6,207,383	33,875
Depreciation and amortization	4,088,246	4,379,195	290,949
Interest	347,329	347,343	14
Total operating expenses	*105,847,322*	*105,109,374*	*(737,948)*
Income (loss) from operations	***$3,063,302***	***$2,770,122***	***$293,180***

Significant Variances

Net patient service revenue is $519,210 over budget or 0.5% year to date through May. The variance is primarily due to an increase in oncology pharmacy drug volume and higher cost of those drugs, gross charges are 16.8% over budget year to date. CT scans and physical therapy outpatient volumes are also over budget with gross charges 8.9% and 42.4% over budget, respectively. These positive variances are offset by lower than plan volumes in operating room, radiation therapy and physician practices.

Year to date, the provision for bad debt expense is $4,203,180 or $981,463 over plan. Over the first eight months of the fiscal year self-pay receivables have increased by over $600,000 or 15%. Management believes this increase is due to a combination of employers in the area moving their group insurance plans to high dollar deductible plans and the Medical Center is seeing more patients who have chosen not to have health insurance, possibly due to higher costs of insurance plans.

At the beginning of the calendar year patients with high dollar deductible plans are responsible for medical payments until the maximum coinsurance and deductibles are met. Management is seeing greater deductible and co-insurance amounts increasing the self-pay financial class.

Charity Care is 6.9% over budget or approximately $96,994 over plan. Increased applications are being taken as a result of the high deductible plans and the overall cost of health care coverage to small employers. Additionally, there has been an increase in non US resident applications.

Other Revenue

Other operating revenue is over budget by $511,918 year to date primarily due to higher revenue than plan from the 340B Contract Pharmacy Drug Program.

Expenses

Employee benefit expenses were $1,242,219 under budget year to date or 12.8%. This year to date variance is primarily due to the defined benefit pension expense credit being better than plan by over $100,000 per month or over $800,000 year to date. This is a *non-cash* generating credit. The remaining variance is due to Health Benefit claims being under plan.

Pharmacy drug costs were $613,559 over budget for the year to date or 6.9% with most of this variance being driven by drugs used in the Cancer Center to treat cancer patients.

Purchased service expenses are over budget for the year to date by $1,827,026 with the largest variances in; contract labor in clinical departments by $1,026,474, MD locum expense over budget by $891,246, and laboratory referral testing expense over budget by $159,220;

10. Budget-to-budget growth.

A. Net patient revenues:

i. Provide the budgeted FY 2019 NPR increase over the approved FY 2018 budget. If the GMCB rebased the hospital's budget for the purpose of calculating FY 2019, provide the budgeted increase in NPR for FY 2019 measured from the hospital's rebased budget.

Net patient service revenue is anticipated to increase by $5,122,512 over FY 2018 Budget or 3.2%. Included in the increase is the fixed prospective payment revenues;

ii. Describe any significant changes made to the FY 2018 budget (including, but not limited to, changes in anticipated reimbursements, physician acquisitions and certificates of need) and how they affect the FY 2019 proposed budget.

Table #4 on the following page lists the significant changes in rate/price and volume/service changes to NPSR in the FY 2019 budget compared to FY2018 budget, here are a few highlights:

Increase in NPSR--highlights

- Charge increase of 3.25% to the commercial carriers;
- The Cancer Center volumes and cost of delivering the care continue to increase;
- Inpatient ICU volumes will increase due to the institution of Telemedicine program with Dartmouth Hitchcock;
- Diagnostic radiology and laboratory services;

Decrease in NPSR—highlights

- Medical Practices volumes;
- Reduction in General Surgery and Orthopedic Surgery cases;

- Lower Radiation Therapy volumes;
- Increase in Indigent Care;
- Decrease DSH Funding

Table #4 – Significant changes to rate/price and volumes

FY 2019 NPSR major changes compared to FY 2018 NPSR Budget		
Rate/Price changes	***Amount***	***% of FY 2018 NPSR***
Charge/rate increase (*effective rate of 3.25%*)	$2,202,495	1.38%
Medicare increase	393,271	0.25%
Increase in Indigent Care	(1,492,000)	-0.93%
Change in DSH funding	(22,198)	-0.01%
Subtotal rate/price changes	*1,081,568*	*0.68%*
Volume/Service changes		
Inpatient Telemedicine - ICU	1,290,238	0.81%
Cancer Center - Medical Oncology	3,651,967	2.28%
Radiation Therapy	(598,878)	-0.37%
Medical Practices	(1,031,590)	-0.64%
Operating Room	(1,388,767)	-0.87%
CT Scan, MRI, Nuclear Medicine	878,485	0.55%
Diagnostic Lab Services	196,762	0.12%
Physical Therapy	443,224	0.28%
Dental services	293,606	0.18%
Other volume changes	305,897	0.19%
Subtotal volume/service changes	*4,040,944*	*2.52%*
Total change in NPSR	***$5,122,512***	***3.20%***

iii. Describe any cost saving initiatives proposed in FY 2019 and their effect on the budget.

See below in the expense section.

iv. Explain changes in NPR/FPP expected for each payer source:

a. Medicare revenue assumptions: Identify and describe 1) any significant changes to prior year Medicare reimbursement adjustments (e.g. settlement adjustments, reclassifications) and their effect on revenues; 2) any major changes that occurred during FY 2018 that were not included in the FY 2018 budget, and 3) any anticipated revenues related to meaningful use and 340B funds in FY 2019.

- The budget assumes Medicare rates will be increased for an update factor of 1% for inpatient services as of October 1, 2018 and 1% for outpatient services effective January 1, 2019, including physician practices;

- No significant changes to prior year Medicare reimbursement is anticipated. There is a demographic shift and slight volume increases due to the Telemedicine initiative in the ICU;

- No additional revenue has been budgeted in FY 2019 related to meaningful use, the budget does anticipate approximately $3.2 million from 340B Contract Pharmacy revenue which is classified as other operating revenues. Included in the expense budget is approximately $2.2 million of purchasing savings related to the 340B program.

b. Medicaid revenue assumptions: Budget for net patient revenues expected from rate changes, utilization and/or changes in services.

- Medicaid revenue assumes volume consistent with calendar year 2017. No rate change or change in services has been budgeted. Management is anticipating participating the fixed payment model for Medicaid in CY 2019;

c. *Commercial/self-pay/other revenue assumptions: Commercial insurance revenue estimates should include the latest assumptions available to the hospital and any other factors that may explain the change in net patient revenues.*

- Commercial/self-pay/other revenue assume no change in current contract arrangements and volumes consistent with 2018, except where volumes trends have either increased or decreased;

v. Complete Appendix VI, Tables 1A and 1B. If the hospital categorizes revenue differently than as indicated in the tables, provide such categories, including labels and amounts, in the "Other" rows.

See Appendix VI, Tables 1A and 1B completed.

B. Expenses:

i. Provide the budgeted FY 2019 net expenditure increase over the approved FY 2018 net expenditure increase.

- Expenses are budgeted to increase $6,479,935 or 4.1% over FY 2018 budgeted levels.

ii. Describe any significant changes made to the FY 2018 budget (including, but not limited to, changes in costs of labor, supplies, utilization, capital projects) and how they affect the FY 2019 proposed budget. Provide assumptions about inflation and major program increases.

- Salary expense assumptions include an increase of 4.8 FTE's primarily in clinical areas with a 3% wage increase budgeted for FY 2019. It also assumes most of the contract labor expense experienced in FY 2018 is eliminated and replaced by employed staff.
- Drug costs assume increased volume and an 8% increase in prices in FY 2019;

iii. Describe any cost savings initiatives proposed in FY 2019 and their effect on the budget.

- The budget assumes continued drug cost savings in FY 2019 because of an initiative with DH to identify areas for savings and 340B program savings;
- The FY 2019 budget assumes vacant positions in nursing are filled and are budgeted in salaries. The FY 2019 budget does includes $282,000 contract labor expense in nursing;
- The budget also includes an expense reduction initiative with planned savings of at least $800,000, net, management is working with outside resources to determine actual strategies.
- Additionally, included in the budget is $400,000 of savings in FY 2019 related to efficiencies in purchasing of supplies due to the anticipated affiliation with Dartmouth Hitchcock.

iv. Complete Appendix VI, Table 2. If the hospital categorizes expenses differently than as indicated in the tables, provide such categories, including labels and amounts, in the "Other" rows.

See Appendix VI, Table 2, completed.

11. Bad Debt

A. Provide the amount of bad debt carried by the hospital at the close of FY 2017 that was incurred prior to FY 2016.

Bad Debt that was on the AR at FY17 year-end close, but incurred prior to 10/01/2015 = $1,113,964

B. If the hospital contracts with a collection agency, provide the name of the agency.

SVMC contracts with three agencies;

a. Marcam Associates, 400 W. Cummings Park, Woburn, MA 01801
b. Benuck and Rainey, INC, 25 Concord RD, Lee, NH 03861
c. Collections Bureau of Hudson Valley, 155 N Plank Rd, Newburgh, NY 12550

C. In your opinion, explain whether the agency adheres to "patient friendly billing" guidelines. See http://www.hfma.org/Content.aspx?id=1033

In our opinion all three agencies adhere to patient friendly billing practices. We have excellent communication with the agencies and work closely with them to resolve any patient issues that may arise.

12. Rate Request

A. Provide the hospital's budgeted overall rate/price increase or decrease. Explain how the rate was derived and what assumptions were used in determining the increase or decrease.

The overall effective charge rate increase is 3.25%. It was determined that physician professional services, drugs sold and medical surgical supplies should not be increased since charges in these areas are comparable with other Hospital's in the region. The charge level of these services is approximately 31% of the Medical Center's charges. The remaining 69% of charges will be increased 4.7%.

B. For each payer, if the net patient revenue budget-to-budget increase or decrease is different than the overall rate/price change—for example, if the "ask" differs from the rate/price change –explain why they differ.

Increases are consistent among all payers.

13. FY 2017 overages

For those hospitals that received a letter regarding their FY 2017 budget-to-actual overages results, specifically address the issues and requirements outlined in the letter.

SVMC operated within budget in FY 2017 and did not receive a letter.

14. Capital budget investments

Describe the major investments, including projects subject to certificate of need review that have been budgeted for FY 2019 and their effect on the FY 2019 operating budget.

SVMC budget assumes $6,000,000 of capital budget investments for routine equipment replacement and building improvements in FY 2019.

SVMC's average age of plant is one of the oldest in the State of VT and exceeds the national benchmarks for rural community hospitals. SVMC is considering CON applications for three significant physical plant projects and an information technology project. No specific costs have been included in the budget for the physical plant projects. For the information technology project management has included approximately $1 million to assess our current systems and planning costs to move to a new information technology platform. The costs of the physical plant projects are nearly $50 million.

15. Technical Concerns

Included in this budget submission there are not significant "Technical Concerns" included, however SVMC management reserves the ability to comment during the process if any items shall arise.

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If there are any questions or comments please do not hesitate to contact Stephen D. Majetich, Chief Financial Officer at 802.447.5011