Southwestern Vermont Medical Center
Operating Budget
Fiscal Year 2020

1. ***Executive Summary***

Southwestern Vermont Medical Center's (hereafter "SVMC" or "Medical Center") Operating Budget for Fiscal Year (hereafter "FY") 2020 has a planned operating gain of nearly $6.1 million or an operating margin of approximately 3.4%. The excess of revenues over expenses including non-operating activities is nearly $6.7 million. Table #1 provides the high level comparative summary Statement of Operations.

Table #1 – Comparative Summary Statement of Operations

	FY 2018 Actual	***FY 2019 Projected***	***FY 2019 Budget***	***FY 2020 Budget***
Net patient service revenues	$161,115,766	$164,909,631	$165,201,376	$172,284,645
Other operating revenues	5,058,629	6,069,620	5,127,206	5,722,145
Total operating revenues	*166,174,395*	*170,979,251*	*170,328,582*	*178,006,790*
Operating expenses	*158,556,275*	*165,255,567*	*164,211,565*	*171,954,316*
Operating gain	*7,618,120*	*5,723,684*	*6,117,017*	*6,052,474*
Non-operating activities-net	2,084,454	388,297	649,214	600,000
Excess revenues over expenses	***$9,702,574***	***$6,111,981***	***$6,766,231***	***$6,652,474***

The Net Patient Service Revenue (hereafter "NPSR") growth is nearly $7.1 million or a 4.28% increase over FY 2019's approved budget. This increase is a combination of a requested effective net rate increase of 2.8%, changes in volumes from the FY 2019 budget amounting to $3,764,000 and the "acquiring of" $1,301,000 for Anesthesia provider revenue anticipated to begin on January 1, 2020. SVMC currently has a professional services agreements with an Anesthesia group to provide services to our patients, under the new arrangement physicians would be "transferred/acquired" to SVMC as employees of the DH Putnam Physicians Group.

Table #2 on the following page is a comparative summary Statement of Cash Flows for the FY 2020 budget. Included on the statement are the material drivers of Medical Center's cash flows.

The FY 2020 Operating Budget will generate a positive gain from operations of $6.052 million. After the cash needs, including capital purchases, of the organization the expected cash balance will only increase by just under $700,000 which represents approximately 1.4 days cash on hand.

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

	FY 2018 Actual	**FY 2019 Projected**	**FY 2019 Budget**	**FY 2020 Budget**
Operating gain	*$7,618,120*	*$5,723,684*	*$6,117,017*	*$6,052,474*
Add: Non-cash activities				
Non-operating gains	2,084,454	388,297	649,214	600,000
Depreciation expense	6,156,990	6,224,069	6,309,783	6,500,000
Pension credit	(810,854)	(900,000)	(700,000)	(500,000)
Subtotal	*15,048,710*	*11,436,050*	*12,376,014*	*12,652,474*
Other operating activities	*(7,438,106)*	*(2,359,925)*	*(1,512,297)*	*(1,024,220)*
Cash provided by operations and non-cash activities	*7,610,604*	*9,076,125*	*10,863,717*	*11,628,254*
Less: Investing and financing activites				
Capital purchases	(5,660,225)	(6,000,000)	(6,000,000)	(6,000,000)
Pension plan funding	(3,481,000)	(3,750,000)		(4,500,000)
Long term debt payments	(462,619)	(448,392)	(418,585)	(456,561)
Cash used for investing and financing activities	*(9,603,844)*	*(10,198,392)*	*(6,418,585)*	*(10,956,561)*
Net increase (decrease) in cash and equivalents	***($1,993,240)***	***($1,122,267)***	***$4,445,132***	***$671,693***

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 20.3 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 161 days.

The FY 2020 total NPSR budget was prepared utilizing *"fee for service"* models then split between "*fee for service"* and "*fixed prospective payment"* revenues. The Medical Center has been participating in the Medicaid "risk model" effective January 1, 2018 and on January 1, 2019 began participation in Medicare and Blue Cross QHP "risk models". This budget was prepared using known information and trends through May 31, 2019. ***<u>The "upside and downside risk" was not considered in the budget preparation.</u>*** However, it is worth noting that Management's philosophy is to conservatively record actual results based upon the best information available at the time of the financial statement close.

Developing this budget the Medical Center evaluated its overall mission, utilized its Community Needs Assessment, 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 approximately $1,500,000 for FY 2020 are included. The budget includes additional resources to address the mental health needs of inpatient, observation and emergency room patients. These resources include additional coverage in the "Emergency Crisis Area" and additional security staff. An additional 10.96 Full Time Employee Equivalents (hereafter "FTE's") have been budgeted to staff the Emergency Department and the "Emergency Crisis Area".

The Medical Center continues to develop telemedicine programs that provides physician support for the Emergency Room, Express Care, Neurology service and the Intensive Care unit partnering with Dartmouth Hitchcock. A new Pediatric Psychiatry telemedicine service has been included in the FY 2020 Budget.

There are costs included in the budget related to the Hospital's Community Needs Assessment which includes many other initiatives in the community. Included is the continued financial support to the local free clinic, wellness and community building initiatives to name a few.

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

<u>Revenue—Rate/Price</u>

- The effective charge / rate increase of 2.8% is being requested;
- Included in the budget is an increase in non ACO Medicare and Medicaid reimbursement of 1% for FY 2020 and 3.5% for Medicare ACO volumes;
- <u>No</u> provider reimbursement increase has been budgeted for FY 2020;
- Vermont Disproportionate Share Payments (hereafter "DSH") are budgeted at $839,000 or an ***<u>decrease</u>*** from FY 2019's amount by approximately $183,000;
- Indigent care (bad debt and charity care) is budgeted to increase by approximately $200,000;
- A reduction of $762,000 in Medicare provider based billing revenues;

Revenue—Volumes/Services

- Anesthesia group will be employed by SVMC via the Professional Services Agreement (hereafter "PSA") with Dartmouth Hitchcock effective January 1, 2020;

- Increased revenue in the medical group Orthopedic, Neurology and Gastroenterology practices;

- Continued increased Oncology revenue due to patient volume and increased drug revenues/costs in the Cancer Center;

Other Operating Revenue

Other operating revenue is budgeted to increase by nearly $600,000 primarily as a result of grant revenue from programs that support initiatives in the community such as Early Childhood Intervention and Blue Print for Health. Included in this category of revenues is approximately $3.250 million of 340B contract revenues.

Operating expenses

- A 3% salary increase was included, effective May 2020;

- FTE's of 792 are nearly 23 FTE's higher than FY 2019's budget;

- DH PSA costs are budgeted to increase by approximately $4 million, in largely due to the addition of the Anesthesia group to the PSA;

- Provisions are included in the budget for investments in the Strategic Plan as well as operational improvements and savings opportunities identified in the Strategic Planning engagement by Pinnacle;

Other Highlights

- The FY 2020 capital budget and investments is $6,000,000.

2. 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 2020 and over the next five years.

SVMC embraces the All-Payer Model and is a leader in care delivery reform within the OneCare Vermont network. For many years SVMC has invested in programs and processes to transform healthcare from fee-for-service to value ranging from establishing a robust transitional care nursing program to coordinating comprehensive community care teams comprised of community based agencies and organizations that co-manage complex high-risk patients.

In 2018 (calendar year), SVMC enrolled in OneCare's Medicaid next-generation contract and proceeded to reduce local utilization by over 10% and out-of-network spending over 3%. The final settlement with OneCare has not yet been received as of the preparation of this document. The data lag and the "newness" of the program to SVMC prevents decisive action and determining if strategies are achieving the goals set. As OneCare matures management believes data will be more timely as well as conclusions.

Currently (2019 calendar year), SVMC is enrolled in all four of OneCare's advanced payment programs for the following payers; Medicare, Medicaid, Blue Cross / Blue Shield QHP, and the University of Vermont's self-funded plan. Collectively, SVMC is responsible for more than 9,000 attributed lives and approximately $90,000,000 in healthcare spending. Of the $90,000,000 in healthcare spending, approximately 45% will occur at SVMC $33,500,000 in fixed prospective payments and $7,000,000 is fee for service payments. Approximately 22%, $20,000,000 in healthcare spend is at other healthcare providers within the OneCare network. The remaining nearly 33% of the healthcare spending of the attributable lives occurs outside the OneCare network creating substantial risk for SVMC. The Medical Center has agreed to a positive and negative risk corridor of approximately $2,200,000 for CY 2019.

It is noteworthy that as of June, the Medical Center does not have representative sample of claims data for CY 2019 through OneCare, restricting our ability to manage and coordinate care of this population. SVMC has used its internal systems and some OneCare identifiers to attempt to reduce unnecessary healthcare spending by launching intensive care coordination of specific individuals.

OneCare programs operate on a calendar year basis and thereby spans two fiscal years.

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

SVMC has not yet signed OneCare contracts for CY 2020 because the contracts are not yet available. SVMC has indicated intent to continue in all four OneCare programs for CY 2020. OneCare has not yet provided the number of covered lives by the CY 2020 contracts, nor the prospective payment amount. We do not anticipate receiving this information prior to being required to return signed 2020 contracts in August.

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

The maximum upside/downside risk for CY 2020 has not yet been determined. SVMC's maximum upside/downside risk for CY 2019 is $2,200,000. It is unclear whether OneCare will eliminate or expand the risk elimination "backstop" for CY 2020 which limited the Medical Center's risk by approximately $2 million. ***The "upside and downside risk" was not considered in the budget preparation.***

SVMC does not build the upside or downside risk into its budget but rather assumes the middle position in developing its budget. SVMC believes that the neutral position is to receive neither a reward through reduced utilization or a penalty from over utilization. Management's position may change over time once there is clear historical data and there is clear evidence and trends to base our decision on. Extensive evidence suggests that the social determinants of health drive healthcare spending more than the care delivered. Addressing the social determinates of health requires decades of effort to achieve real results. The obesity and opioid epidemics, together with economic and demographic headwinds in the Bennington region suggest that healthcare spending will increase. SVMC efforts to better manage care through community care teams and transitional care nurses, to name a few programs, may only offset the market-place driven increase in healthcare spending and result in relatively flat overall healthcare spending. SVMC is committed to delivering the best care possible with the most cost effective delivery platform.

C. What amount of Other Reform Payments does the hospital expect to receive from OneCare Vermont by the end of calendar year 2020 (e.g., payments from OneCare's Value-Based Incentive Program based on quality performance)?

Additional reform payments from OneCare in CY 2020 for primary care coordination or from the value-based incentive program are difficult to predict because these payments are based upon attribution (which has yet to be provided for 2020) or achieving specific care coordination goals and measures.

Reconciliation of such payments for CY 2018 has not yet been completed and it is too early in CY 2019 to predict the magnitude of such payments for CY 2020 given the absence of data. As with the upside and downside risk management has taken a neutral position.

D. Are the hospital's employees attributed to OneCare, either through participation in an OneCare self-insured program or, if fully-insured, through the hospital's insurer? If not, why not?

SVMC employees are ***not*** in OneCare. SVMC continues to explore the possibility of engaging OneCare with its self-insured employee plan, however, management is still evaluating the outcomes of other programs, especially the commercial products.

E. How is the hospital changing the allocation of resources in its budget to improve population health, under the All-Payer ACO Model and/or other initiatives?

SVMC continues to balance initiatives that drive population health and reduce healthcare spending with the need to continue to provide comprehensive high-quality medical care. For example, funding transitional care nursing and community care teams may have resulted in a reduction in Emergency Room volumes, however, there is clear evidence that hospital admissions have been reduced. The inpatient setting is the most costly setting in the healthcare delivery system. The benefit has been to the Vermonters and it is twofold. First, the most important is that the patients in these programs which SVMC serves quality of life has improved. Second, the transitional care program prior to the fixed payment model system reduced the Medical Centers revenues, thus reducing health care costs to Vermonters. In the fixed payment model preventive care and close monitoring of chronic conditions will benefit the delivery system and the patients.

3. Provide a summary income statement that shows a reconciliation between FY 2019 approved budget and FY 2019 full-year projections, showing both positive and negative variances. Explain the variances:

Table #3 on the following page has the FY 2019 submitted projection. The projection was prepared after the eight months ended May 31, 2019 Medical Center financial statements were completed, examining the recent and historical run rates, and known possible subsequent events. The projection was finalized on June 14, 2019 and is subject to change.

Table # 3 – FY 2019 Projections

Southwestern Vermont Medical Center
Statement of Operations
Budget FY 2019 vs Projection FY 2019

As of June 14, 2019	***FY 2019 Budget***	***FY 2019 Projection***	***Change to Projection***	%
Operating revenues				
Net patient service revenues	$171,301,376	$171,092,774	($208,602)	-0.1%
Less: Provision for bad debts	6,100,000	6,183,143	83,143	1.3%
Net patient service revenues net of provision for bad debts	*165,201,376*	*164,909,631*	*(291,745)*	*-0.2%*
Other operating revenues	5,127,206	6,069,620	942,414	15.5%
Total operating revenues	*170,328,582*	*170,979,251*	*650,669*	*0.4%*
Operating expenses				
Salaries and wages	50,346,085	50,652,369	(306,284)	-0.6%
Employee benefits	14,610,440	14,509,874	100,566	0.7%
Supply expenses	11,486,078	11,427,016	59,062	0.5%
Drug Costs	14,853,079	15,051,509	(198,430)	-1.3%
DH PSA	27,938,028	28,488,028	(550,000)	-1.9%
Purchase services, utilities and other	28,505,078	28,743,306	(238,228)	-0.8%
Provider tax	9,618,532	9,652,381	(33,849)	-0.4%
Depreciation and amortization	6,309,783	6,224,069	85,714	1.4%
Interest	544,462	507,015	37,447	7.4%
Total operating expenses	*164,211,565*	*165,255,567*	*(1,044,002)*	*-0.6%*
Income (loss) from operations	***6,117,017***	***5,723,684***	***(393,333)***	***-6.9%***
Non operating gains (expenses)				
Investment return	349,214	304,293	(44,921)	-14.8%
Change in fair value of interest rate swap	0	(244,734)	(244,734)	0.0%
Contributions	300,000	328,738	28,738	8.7%
Net non operating gains (expenses)	*649,214*	*388,297*	*(260,917)*	*-67.2%*
Excess of revenues over expenses	***$6,766,231***	***$6,111,981***	***($654,250)***	***-10.7%***

SVMC anticipates FY 2019 projected results being close to FY 2019 approved budget. Table #4 on the following page provides a brief explanation of anticipated budget variances.

<u>*Table # 4 – Projected Variances with brief explanations*</u>

	Anticipated Variance
Budgeted FY 2019 operating gain	***$6,117,017***
Projected Variances	
Net patient service revenue including OneCare Prospective payment are projected to be slightly under budget. Inpatient revenue is anticipated to be slightly under budget and outpatient services slightly over budget.	(208,602)
Provision for bad debt is projected to be slightly over budget or 1.3%	(83,143)
Other operating revenue is currently projected to be approximately $942,414 over budget due to higher than plan 340b contract pharmacy revenue and grant revenue	942,414
Salaries and wages are anticipated to be over budget by $306,284 of 0.6% primarily due to additional staffing required in the Emergency Department and clinical areas to care for difficult patients	(306,284)
Employee benefits are anticipated to be under budget by approximately $100,566 primary due to pension credit being higher than budget.	100,566
Supply expense are anticipted to be approximately $59,062 under budget or 0.5% primarily due to OR chargable inpatient supplies being under plan as a result of lower volume.	59,062
Drug costs are anticipated to be approximately $198,430 over budget primarily due to increased contract pharmacy volume that geneates additional other revenue.	(198,430)
DH PSA expenses are anticipated to be approximately $550,000 over budget due to a combination of increases for associate provider, ER physicians, specialty physicians and sign on bonuses to attract new providers.	(550,000)
Purchased services, utility and other expense is anticipated to be approximately $238,228 over budget primarily due to physician locum and clinical contract labor expense being significantly over budget.	(238,228)
Provider tax is anticipated to be $33,849 over budget.	(33,849)
Depreciation expense is anticipated to be $85,714 under budget	85,714
Interest expense is anticipated to be approximatly $37,477 under budget.	37,447
Subtotal FY 2019 Projected Budget variances	***(393,333)***
FY 2019 Projected operating gain	***$5,723,684***

4. Budget-to-budget growth. A. Net Patient Revenue and Fixed Prospective Payments (NPR/FPP): i. Explain the budgeted FY 2020 NPR/FPP increase over the approved FY 2019 budget and over the FY 2019 full-year projection. If the GMCB rebased the hospital's budget for the purpose of calculating FY 2020 measured from the hospital's rebased budget.

The $172,284,645 of total NPSR is an increase of $7,083,269 or 4.3% when compared to FY 2019's budget. Included in the $172,284,645 is $1,301,015 of Anesthesia Physician practice revenues, which the GMCB eliminates from the 3.5% guidance test, since it is a "physician acquisition".

Table #5 is the test of SVMC's compliance with the 3.5% GMCB guidance.

Table #5 – SVMC NPSR compliance

Proposed NPSR FY 2020 Budget	$172,284,645
Less: New Anesthesia professional revenues	1,301,015
Adjusted NPSR FY 2020 Budget	170,983,630
FY 2019 NPSR Budget – Approved	165,201,376
FY 2020 NPSR increase	***$5,782,254***

The increase of $5,782,254 is 3.5% of the FY 2019 approved budget, thus SVMC is in compliance with the GMCB guidance.

The growth in NPSR is nearly $7.4 million or 4.46% over projected FY 2019 and $7.1 million over FY 2019 Budget.

This increase has two high-level components, rate and volume. The total change in the *"rate"* is $2,018,000 or approximately 1.22%. The *"volume"* component, including Anesthesia professional billings, of $1,301,000, is approximately $5,065,239 or 3.07%.

Below is table # 6 to help in the explanation:

FY 2019 budgeted NPSR	$165,201,376
Rate increases	2,018,000
Volume increases	5,065,269
FY 2020 NPSR Budget	***$172,284,645***

The components of the increase in NPSR are listed on the tables below compared to FY 2019 NPSR. The table # 7 provides the components which pertain to the rate.

Table # 7 -- Rate changes

	Amount	**Percent of FY 2019 NPSR**
Net realization of the charge increase	$2,776,000	1.68%
Medicare proposed rate increase	673,000	0.41%
Medicaid proposed rate increase	138,000	0.08%
Medicaid Disproportionate Share	(183,000)	(0.11%)
1% Payer mix shift to Medicare	(424,000)	(0.26%)
Medicare provider based payment	(762,000)	(0.46%)
Subtotal	*2,218,000*	*1.34%*
Net change in bad debt and charity care	(200,000)	(0.12%)
Total changes in rate	***$2,018,000***	***1.22%***

Table # 8 are the increases in volumes and services.

Table # 8 – Volumes and Service changes

	Amount	**Percent of FY 2019 NPSR**
Medical Practices	$1,181,000	0.72%
Oncology services/drug revenues	1,140,000	0.69%
Outpatient surgical volumes	585,000	0.35%
Inpatient volumes	563,000	0.34%
Endoscopy	372,000	0.23%
MRI	205,000	0.12%
Outpatient volumes and others	(281,731)	(0.17%)
Subtotal	*3,764,269*	*2.28%*
New Anesthesia professional revenues	1,301,000	0.79%
Total volume and service changes in revenues	***$5,065,269***	***3.07%***

ii. Describe any significant changes made to the FY 2019 budget (including, but not limited to, changes in anticipated reimbursements, physician acquisitions and certificates of need) and how they affect the FY 2020 proposed budget.

No significant changes were made to the FY 2019 budget except with the addition of the Anesthesia service.

iii. Describe any cost saving initiatives proposed in FY 2020 and their effect on the budget.

SVMC has retained Pinnacle Healthcare Consulting to assist in the Medical Center's long term strategic plan. As part of the strategic plan Pinnacle is reviewing the cost structure of the Medical Center. The team is studying in depth the needs of the community, what are the services SVMC needs to provide to keep patients local, and assuring that SVMC can deliver high quality, safe care in a cost effective manner. The plan is to utilize current resources, develop partnerships and affiliations to achieve the goal.

The strategic plan is not complete at this time. Management has included an undefined investment in operating costs of $500,000 in the FY 2020 budget for strategic plan implementation and has set a goal of $1 million of operating expense reductions, throughout the Medical Center to achieve the desired operating results.

iv. Explain changes in NPR/FFP 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 2019 budget and 3) any anticipated revenues related to meaningful use and 340B funds in the FY 2020****.*

1) SVMC does not anticipate and has not included any significant prior year Medicare reimbursement adjustments, settlements or reclassifications in the FY 2020 budget;

2) One reimbursement change that was not included in the FY 2019 budget was a decrease to Medicare provider based reimbursement at the offsite practice campuses of; Northshire, Deerfield, Pownal and the Orthopedic site. Medicare implemented a 30% reduction on those payments in January 2019 and planning to implement another 30% reduction on January 2020. Medicare reimbursement for those locations are budgeted to decrease by another $762,000 from FY 2019;

3) No revenues were budgeted for meaningful use in FY 2020 budget. The FY 2020 budget does include $3,250,000 for 340B Contract Pharmacy program revenue recorded in Other Operating Revenue.

b. Medicaid revenue assumptions: Budget for NPR/FPP expected from rate changes, utilization, and /or changes in services.

The budget assumes; a 1% increase for Medicaid payment rate of approximately $139,000, a decrease from utilization/payer mix of approximately $230,000, approximately $149,000 of additional Medicaid revenue from the Anesthesia physician group acquisition/transfer and an $182,000 decrease in DSH funding.

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 NPR/FFP.

The budget assumes; a $2,776,000 commercial rate increase, approximately $953,000 of additional commercial insurance revenue from the Anesthesia physician group acquisition/transfer and a $200,000 increase in bad debt/free care.

V. Complete Appendix VI, Table 1. If the hospital categorized revenue differently than as indicated in the table, provide such categories, including labels and amounts, in the "Other" rows.

The completed Appendix VI is attached.

B. Expenses:

i. Explain changes in budgeted FY 2020 expenses over the approved FY 2019 budget net expenditure increase and the FY 2019 full-year projection. If the GMCB rebased the hospital's budget for the purpose of calculating FY 2020, provide the budgeted changes in expenses for FY 2020 measured from the rebased budget.

Operating expenses in total are budgeted to increase 4.1% to projected costs and 4.7% to FY 2019's budget. People costs (salaries and wages, employee benefits, and PSA costs) account for 86% of the total operating expense increase, budget to budget. The largest cost increase is in the DH PSA which is driven by the increase in providers, which includes Anesthesiology. Below will review the significant changes in operating expenses compared to the FY 2019 projections.

Salaries and wages are budgeted at $52,531,822 an increase of $1,879,453 or an increase of 3.7% over the projected FY 2019 expense and $2,185,737 over the FY 2019 budget or 4.3%. In developing the FY 2020 salary and wage budget there were ***significant*** assumptions:

1. Provided is an increase in wages for employee's in FY 2020 of 3% in May 2020.

2. Total budgeted FTE's of 792.1 are 22.5 FTE's higher than last year's budget and 5.7 FTE's higher than projected FY 2019 FTE's of 786.4.

The increase in the FY 2020 budget to budget increase is being driven by nearly 11 FTE increase in the Emergency Room to address the increasing Behavioral Health patient load and to assure that our workforce is safe. In addition, certain functions which had been outsourced and charged to purchase services in past years were brought in-house as a cost savings measure. Another component of the increase is the reduction of contracted labor in the Nursing departments.

Last year the GMCB's staff analysis of SVMC's cost per FTE was nearly 4% below the Statewide System averages. As with all healthcare providers in Vermont recruiting is a challenge. SVMC's 3% pay increase should keep up with the market but does not close down the 4% gap in pay.

The supplies expense budget is anticipated to increase approximately $630,124 or 5.5%. The increase is due to the budgeted increase in operating room volume and Information Technology Services computer supplies for hardware replacement (non-capital) scheduled for FY 2020.

Drug costs are budgeted to decrease by $340,509 or 2.3% in the FY 2020 budget compared to the projected actual FY 2019. The budget assumes continued drug cost savings in FY 2020 because of an initiative with DH to identify areas for savings and 340B program savings. Budget to budget comparison of drug costs shows decreased costs of $142,000 as a result of more drugs being purchased at significantly lower prices under 340B program than previously budgeted and initiatives with DH.

DH Physician PSA expense is budgeted to increase by $3,512,902 or 12.3%. The table # 9 on the following page will provide details on the changes in the cost composition of this category of expense.

Table # 9 – DH Physician PSA expense change

Provider types		***Amount***
Anesthesiology		$2,520,030
Gastroenterology		578,728
General Surgery		428,657
Neurology		374,170
Orthopedics		440,113
Pediatrics		(250,041)
Pownal campus		(170,995)
Pulmonology		(142,088)
Others		(265,672)
	Total	***$3,512,902***

5. Bad Debt.

A. Provide the amount of bad debt carried by the hospital at the close of FY 2017 and FY 2018, using the table in Appendix VII.

Appendix VII is attached

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

SVMC contract with three agencies;

A. Marcam Associates, 400w. 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 management's 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.

6. Operating Margin and Total Margin. Explain the hospital's Operating Margin and Total Margin in the FY 2020 proposed budget, including budgeted FY 2020 Operating Margin and Total margin changes over the approved FY 2019 budget and the FY 2019 full-year projection.

The FY 2020 proposed budget assumes a 3.4% operating margin and 3.7% total margin. The operating and total margins are down slightly from the approved FY 2019 budgeted margins. SVMC's performance has been constant over the past several years. SVMC anticipates operating and total margins in the full-year FY 2019 projections of 3.3% and 3.6%, respectively.

The operating margin is a measurement which organizations are measured and SVMC is no different. SVMC budgeted and actual operating margins for the past several years has been consistent. Consideration of the lower than average capital structure and significantly higher than average age of plant of the Medical Center in SVMC's operating margin evaluation is typically not considered. If SVMC's capital structure and average age of plant was at the national average or even the VT average the operating margin would be significantly lower utilizing the current rates. It is management's position that the operating and total margins in addition to the above factors should be consider when one reviews SVMC's financial performance, year over year.

If consideration is given to the lower debt structure and age of plant in the evaluation as mentioned above the margins would be much less. Management's primary financial goal each year assures that the Medical Center will have a small positive cash flow from operations.

7. Charge Request

A. Provide the hospital's budgeted overall charge increase or decrease and describe how the increase or decrease was calculated by payer type, including the calculation of the impact of the change in charge on gross revenue and net patient revenue. Explain how the charge was derived and what assumptions were used in determining the increase or decrease. Complete the table in Appendix VIII.

The overall effective rate of the charge increase is approximately 2.8%. 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 for these services is approximately 40% of the Medical Center's charges. The remaining approximately 60% of charges will be increased 4.7%.

B. For each payer, if the NPR/FFP budget-to-budget increase or decrease is different than the overall change in charge – for example, if the requested commercial "ask" differs from the change in overall charge – explain why they differ.

For Medicare and Medicaid payers the increase in gross charges will not directly increase net patient service revenue. For commercial insurers the increase in gross charges will increase net patient service revenue but not on a dollar for dollar basis. Commercial insurance generally pay on a percentage of gross charges that varies depending on the individual payer contracts.

C. In April/May, the GMCB will provide a charge schedule for reporting the change in charges for each major line of business and the gross and net revenues expected from each payer as a result of the change in charges.

The completed Appendix VIII, charge request schedule is attached.

D. In April/May, the GMCB will provide each hospital with a hospital specific Cost Shift Analysis. Explain how the hospital addressed the cost shift in FY 2018, especially given the hospital's payer mix.

Management examined the information provided from the GMCB. It has been a goal of the leadership of the Medical Center for the past eight years to move closer to living on Medicare reimbursement and still deliver the high level of safe quality care to the residents in our service area. The Medical Center has made progress on our journey but not totally where we would like to be. While the cost shift methodology provided by the GMCB is different directionally management recognizes that the businesses of Vermont through the insurance companies cannot continue to fund the cost shift.

The OneCare fixed payment models will put additional pressures on the healthcare delivery system but if successful the cost shift should level off or decline and the health status of all Vermonters should improve.

SVMC's actual results demonstrates to management that the cost shift is a smaller part of SVMC's overall total revenue budget in FY 2018 vs. FY 2015.

8. FY 2018 variances. For those hospitals that received a letter regarding their FY 2018 budget-to-actual variance, specifically address the issues and requirements outlined in the letter.

SVMC did not receive a letter regarding FY 2018 budget-to-actual variances.

9. Capital budget investments. Describe the major investments, including projects subject to certificate of need review, that have been budgeted for the FY 2020 and their effect on the FY 2020 operating budget,

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

10. Technical concerns. Explain any technical concerns or reporting issues the GMCB should examine for possible changes in the future.

At this time in the FY 2020 budget cycle SVMC management has no concerns with the process. We reserve the right to comment during the process and after the budget review process is completed.

Proposed or Potential Certificate of Need (hereafter "CON")

The Medical Center is currently considering CON applications for the projects on the attached schedule. No costs associated with these programs are included in this budget.

Management in the coming years will be evaluating significant changes to the physical plant of the Medical Center that could be over cost $50 million. In addition, we anticipate changes to its current information technology platform, the development of partnership for clinical programs, residency programs, as well as possible corporate affiliations. The evaluation of each is in process and estimates are not available at this time and are not included in this budget submission.

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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 or Stephen.majetich@svhealthcare.org.