



April 13, 2020

Chairman Mullin
Green Mountain Care Board
144 State Street
Montpelier, Vermont 05602

To Chairman Mullen and the Green Mountain Care Board:

Thank you for your prompt response to our request for modification to our Approved Fiscal Year 2020 Budget, effective May 1, 2020. In response to the questions from the GMCB and staff:

- Because our payer contracts allow for NMC to increase their rates with contractually defined advance notice (varies by payer) we did not speak with our major commercial payers about the specifics of the requested rate increase. However, we will be speaking with each commercial payer as soon as possible to communicate the changes. We will be able to provide an update to the GMCB after these conversations take place.
- Our primary goal is the long-term financial stability of Northwestern Medical Center so that our local community has access to the critical services that it needs. We continue to work on both revenue enhancement as well as expense reduction, which includes the evaluation of services provided at NMC. As we evaluate services, we look at both the financial performance and importance to our community of retaining that service. Most hospital services do not generate enough revenue to cover associated expenses and are subsidized by a few service lines that do. As we evaluate those that result in a negative contribution margin, we have to prioritize them based on the need of the service in the community and the availability of the service through other organizations in our local community or in the Chittenden county area. This requested rate increase plays a significant role in moving us toward financial stability allowing us to supplement the subsidy required to retain critical services our community needs that wouldn't be financially viable otherwise. If this request is denied or significantly reduced, then more pressure is placed on the reduction of services that require subsidies. While a few services may be readily available through other organizations in our community, others are not. This request would allow us to continue to provide services that are more difficult to access for those living in Franklin and Grand Isle Counties, and these are the services that may be at risk.

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- Significant improvement in provider learning curve has occurred since our budget presentation. There has been progress made as Meditech completed requested coding and functionality changes that continue to position us toward increased productivity and it continues to rise. There are more changes in functionality that will specifically help our primary care and pediatrics applications that are expected to elevate productivity as well. Additionally, NMC invested in an upgrade to its SAN network to improve the speed of the system which materially improved EHR performance. This was an NMC issue and not a Meditech issue but initially appeared to be. At this time, we do not anticipate having grounds for a legal recourse unless the next upgrade does not deliver the promised increase in productivity. Any financial recovery resulting from the upgrade will be accounted for in the next budget year request. We will also capture increased productivity as part of our next budget cycle rate request.
- In the interest of expediency and clarity, the requested budget adjustment only modifies the budgeted rate increase (affecting gross and net revenue) and does not seek to modify the budget to match projected volumes and expenses. Variances between projected and budgeted volumes and expenses will be addressed during the FY2021 budget process in accordance with the guidelines approved by the Green Mountain Care Board, and variances between year-end actual and budgeted volumes and expenses will be addressed when the actual results are submitted at the end of January 2021, again, in accordance with any guidelines provided by the Green Mountain Care Board.
- Covid-19 has had a significant impact on patient volumes and revenue. Based on the observed revenue between March 22, 2020 and April 9, 2020, we are projecting to fall short of budgeted gross revenue in the month of April by approximately 55% or roughly \$9.5 million. After accounting for contractual allowances, this is an expected net patient revenue shortfall of between \$4.5 million and \$5.0 million in April. March financial statements show an operating loss of \$3.4 million with Covid-19 only affecting the second half of the month. Negative returns in the stock market (non-operating) resulted in a total loss of \$6.2 million in the month of March.

Please reach out again if you have any further questions or need additional clarification.

Sincerely,

DocuSigned by:

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Robyn Alvis

Chief Financial Officer
Northwestern Medical Center

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