Southwestern Vermont Medical Center
Operating Budget
Fiscal Year 2021

A. EXECUTIVE SUMMARY

Southwestern Vermont Medical Center's (hereafter "SVMC" or "Medical Center" or "Hospital") Operating Budget (hereafter "Budget") for Fiscal Year (hereafter "FY") 2021 has a planned operating gain of nearly $192,000 or an operating margin of approximately 0.1%. The excess of revenues over expenses including non-operating activities is nearly $642,000. Table #1 provides the high level comparative summary Statement of Operations.

Table #1 – Comparative Summary Statement of Operations

	FY 2019 Actual	***FY 2020 Projected***	***FY 2020 Budget***	***FY 2021 Budget***
Net patient service revenues	$163,952,570	$149,647,911	$172,284,645	$167,089,128
COVID-19 Funding		10,221,192		
Other operating revenues	7,408,575	6,128,058	5,722,145	7,505,174
Total operating revenues	*171,361,145*	*165,997,161*	*178,006,790*	*174,594,302*
Operating expenses	*165,778,101*	*164,525,410*	*171,954,316*	*174,402,372*
Operating gain	*5,583,044*	*1,471,751*	*6,052,474*	*191,930*
Non-operating activities-net	413,312	998,458	600,000	450,000
Excess revenues over expenses	***$5,996,356***	***$2,470,209***	***$6,652,474***	***$641,930***

The Net Patient Service Revenue (hereafter "NPSR") is budgeted to be $5.2 million less than FY 2020's approved budget or a 3% decrease. The decrease in revenues includes a requested effective net rate increase of 3.46%, volumes to return to the twelve month run rate prior to when the COVID-19 Pandemic began in March 2020, the same level of participation in OneCare VT, and increases in volume in the Medicare payer classification. During that pre-COVID twelve month period overall volumes were trending over 4% below FY 2020's Budget as well seeing a greater volume in the Medicare payer class.

In response to the COVID-19 Pandemic SVMC has modified operations and certain services. The budget includes continued telemedicine services as well as the launching of a virtual urgent care platform called CAREqd to improve access to primary medical care. Through CAREqd the community can receive urgent care at any time of day, accessed through a live secure video connection on CAREqd's website. In addition, the Hospital has created new departments to accommodate the Pandemic: patient drive through testing for COVID-19 and possibly for vaccine's and flu shots; a Respiratory Evaluation Center for patients with COVID-19 symptoms and patient/visitor screening teams; greater scheduling of patients as well as virtual waiting rooms.

The impact of the COVID-19 Pandemic was significant in FY 2020 with NPSR being over $17 million under budget through June 30, 2020. In March, elective procedures were stopped under the order of the Governor of Vermont. Patient volumes dropped by nearly 50% and hospital staff were focused on preparations for dealing with COVID-19 and a potential surge of patient volume. As a result of lower volumes and sharply declining revenues the Hospital furloughed approximately 175 employees either part or full-time.

The Governor amended the order to allow elective hospital procedures in mid-May and patient volumes have gradually returned to near pre-COVID-19 levels as of the preparation of the FY 2021 Budget. Furloughed staff have been reactivated as volumes dictate and the true financial impact of all these changes are still being determined.

SVMC received both Federal and State relief funds via the CARES ACT, rural stimulus grant funds and Medicaid Retainer Funds. NO relief funding was included in the FY 2021 Budget. In addition, payment advances were received from Medicare, Medicaid and Blue Cross of Vermont to assist with cash flow issues due to the sharp decline in patient volume/revenue, these funds will need to be fully or partially repaid in the next twelve months. A listing of the most significant funds received are in table #2 below:

Table #2 – Schedule of COVID-19 Payments and Advances

	Amount
HHS Stimulus payment	$9,745,969
Medicaid COVID-19 Retainer	784,501
Medicare advance payments	$9,470,000
Blue Cross advance payments	1,900,000

Table #3 on the following page is a comparative summary Statement of Cash Flows for the FY 2021 budget. Included on the statement are the material drivers of Medical Center's cash flows. The FY 2021 Operating Budget will generate a positive gain from operations of nearly $192,000. After the cash needs, including capital purchases, of the organization the expected cash balance will decrease by approximately $2.7 million which represents approximately 7 days cash on hand.

Table #3 – Comparative "high level" Statement of Cash Flows

	FY 2020 Budget	FY 2021 Budget
Operating gain	*$6,052,474*	*$191,930*
Add: Non-cash activities		
Non-operating gains	600,000	450,000
Increase in line of credit		10,000,000
Depreciation expense	6,500,000	6,350,000
Pension credit	(500,000)	(600,000)
Subtotal	*12,652,474*	*16,391,930*
Other operating activities	*(1,024,220)*	*(1,370,381)*
Cash provided by operations and non-cash activities	*11,628,254*	*15,021,549*
Less: Investing and financing activites		
Capital purchases	(6,000,000)	(5,750,000)
Pension plan funding	(4,500,000)	(3,000,000)
Repayment of advances		(8,500,000)
Long term debt payments	(456,561)	(464,086)
Cash used for investing and financing activities	*(10,956,561)*	*(17,714,086)*
Net increase (decrease) in cash and equivalents	***$671,693***	***($2,692,537)***

The past years the Medical Center has invested in itself from cash reserves and investment earnings from its parent organization, SVHC. The Medical Center reports 20.2 days cash on hand, however, the Medical Center's and its parent organization consolidated days cash on hand and investments are projected to be approximately 170 days as of September 30, 2021.

The FY 2021 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 Medicare, Medicaid and Blue Cross QHP "risk models". ***The "upside and downside risk" was not considered in the budget preparation.*** No upside revenues were recorded or included in the budget and there were no downside risk reserves recorded as well. The neutral midpoint was included in the budget. 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.

The FY 2021 Budget is highly dependent on volume and revenue levels reaching pre COVID-19 levels, which were behind the FY 2020 Budget plan by over 4% through February. Another significant assumption management has increased is the shift in volume to the Medicare payer classification. As the Bennington Banner reported recently, 23.4% of the population in

Bennington County is over 65 and increasing. This increase is greater than anticipated in SVHC's Strategic Plan which was prepared last year.

Below are points of material interest included in the budget:

NO provisions are included in the FY 2021 Budget for a "Surge" or "Shutdown" related to the COVID-19 Pandemic, however, provisions are included in the budget to assure the safety of our patients and employees. *Additional costs have been provided.* *NO Federal or State "Stimulus" funds have been included in the FY 2021 Budget.*

Revenue—Rate/Price

- The effective charge / rate increase of 3.46% is being requested;
- Included in the budget is an increase in Medicare reimbursement of 1% for FY 2021;
- No provider reimbursement increase or decreases have been budgeted for FY 2021;
- Vermont Disproportionate Share Payments (hereafter "DSH") are budgeted at same level as the FY 2020 Budget or $839,000;
- Indigent care (bad debt and charity care) is budgeted to increase by approximately $600,000;

Revenue—Volumes/Services

- Increased revenue in the Medical Group for Endocrinology and Neurology practices was included since these specialties have been a successful recruitments.

Operating expenses

- A 3% salary increase was included;
- FTE's of 779, net 14 FTE's lower than the FY 2020 budget;
- Inclusion of new expenses of approximately $1.4 million related to the Blueprint;
- Provider tax decrease of approximately $733,000 from FY 2020 Budget based upon management's estimate;
- Provisions are included for additional safety measures for our patients and employees related to the Pandemic;
- Inflationary increases are included in supplies and parts of purchased services of approximately 5%;
- OneCare VT participation fees of approximately $1,500,000 for FY 2021 are included.

Other items

- The FY 2020 capital budget and investments is $3,750,000. Total cash spend will be $5,750,000 in FY 2021 due to a portion of the FY 2020 capital budget was delayed due to the Pandemic.
- Other Operating Revenues includes $1.4 million of Blueprint revenues;

B. YEAR-OVER-YEAR and RECONCILIATIONS

1. Net Patient Revenue and Fixed Prospective Payments (NPR/FPP)

The $167,089,128 of NPSR is a reduction of $5,195,517 or approximately 3.0% when compared to the FY 2020 Budget. The FY 2021 NPSR is in compliance with GMCB's guidance.

This decrease has two high-level components, rate and volume. The rate change increase is approximately $1,870,000 or 1.12%. The "volume" component, is a decrease of $7,065,517, or approximately 4.25%. Table #4 will show the components of the budget changes.

Table #4 – FY 2021 NPSR budget rate and volume changes

FY 2020 NPSR Budget	$172,284,645
Rate increases	1,870,000
Volume decreases	(7,065,517)
FY 2021 NPSR Budget	***$167,089,128***

Table #5 provides the components which pertain to the rate changes of approximately $1.870 million.

Table #5 – Rate changes included in the FY 2021 budget

	Amount	***Percent of FY 2020 NPSR***
Net realization of the charge increase	$3,000,000	1.74%
Medicare proposed rate increase	450,000	0.26%
1% Payer mix shift to Medicare	(550,000)	(0.31%)
Office Telehealth reduction	(430,000)	(0.25%)
Subtotal	*2,470,000*	*1.43%*
Net change in bad debt and charity care	(600,000)	(0.35%)
Total changes in rate	***$1,870,000***	***1.08%***

Below are summary explanations of the above items.

- *Net realization of charge increase before bad debt and charity care--$3 million* – details will be provided in section C, "Change in Charge Request", of this document.

- *Medicare rate increase* – the Budget includes for all Medicare patients a 1% rate increase.

- *Increased payer mix shift to Medicare* – as previously mentioned Bennington County's population over 65 is increasing greater than management anticipated in its Strategic Plan prepared last year.

- *Office Telehealth* utilization during the Pandemic increased significantly. The providers and patients are currently adjusting to utilizing this new form of access to care. The reimbursements vary by insurance company and there anticipated less reimbursement per visit using Telehealth. The Care Teams and Finance team estimates based upon the budget volumes a reduction of revenues of $430,000.

- The charge increase impact as well as the overall impact of the local economy due to the COVID-19 Pandemic will put additional pressures on the financial assistance policy and the ability for patients to pay their bills for care due to lack of insurance. The overall increase for this combined reduction is $600,000 which includes bad debt and charity care.

Table # 6 below will list the Volume and Services changes included in the FY 2021 Budget compared to the FY 2020 Budget.

Table #6 – Volumes and Service changes

	Amount	***Percent of FY 2020 NPSR***
Inpatient volumes	($1,575,000)	(0.94%)
Emergency room	(943,000)	(0.56%)
Outpatient surgical volumes	(865,000)	(0.52%)
Endoscopy services	(860,000)	(0.51%)
Medical group visit volumes	(811,000)	(0.49%)
Observation patients	(520,000)	(0.31%)
Outpatient volumes and others	(1,491,517)	(0.92%)
Total volume and service changes in revenues	***($7,065,517)***	***(4.25%)***

A major assumption in the FY 2021 budget was to budget volumes and revenues at the pre-COVID 19 levels which were below budgeted levels by over 4%. Below will provide explanations on a few of the items included in the table above.

- In the FY 2021 Budget total admissions of 3,730 are budgeted to decrease from the FY 2020 budgeted admissions by 150 or 3.9%. This budget projection was based on the actual twelve month run rate period from March 2019 to February 2020, the pre Pandemic period.

- Emergency room visits are budgeted to decrease by 4.2% from the FY 2020 Budget. Emergency room volume has been the slowest volume to return to pre COVID-19 levels. Recent weekly average, through July 26th, volumes are still nearly 12% under budget.

- Outpatient surgical volumes were based on the twelve month period ending February 2020, a decrease of 3.6% from the FY 2020 budget.

- Endoscopy volume is budgeted 13% lower than the FY 2020 budget primarily due provider changes in this specialty. The Hospital has not met its previous four year volume budgets for this service.

- Medical group volumes are budgeted at a level more consistent with historic levels in. New providers, not under contract, as of the preparation of the FY 2021 Budget were not considered in the budgeted volumes or expenses.

2. Other Operating Revenue and Non-Operating Revenues

Other operating revenues are increasing by $1,783,029. Table #7 below shows the major changes.

Table #7 – Other Operating Revenues

FY 2020 budgeted other operating revenues	$5,722,145
Blueprint revenue	1,400,000
340B contract pharmacy revenues	250,000
Other changes, net	133,029
FY 2021 Other Operating Revenues	***$7,505,174***

The inclusion of revenues related to the Blueprint previously administrated by the UHA of $1.4 million accounts for the largest increase, additionally it is expected that the Hospital will increase volumes related to the 340B Contract Pharmacy revenues. Due to the Pandemic several classifications of revenues are anticipated to be lower than FY 2020's Budget.

Non-operating revenues are budgeted in FY 2021 to decrease by $150,000 when compared to the FY 2020 Budget. The budgeted amount is $450,000. The $450,000 consists of mainly unrestricted contributions via SVHC's Foundation.

3. Operating Expenses

Operating expenses are budgeted in FY 2021 at $174,402,372 which is greater than the FY 2020 budget by $2,448,056 or 1.42%.

Salaries, Fringe Benefits, Physician Fees, Contracts

This category of expense on the GMCB reporting is $100,714,734 compared to FY 2020 budget of $99,338,135 or an increase of $1,377,599 or 1.38%. Below review the components of this expense.

Salaries and wages

Salaries and wages are budgeted at approximately $52,207,903 a decrease of approximately $324,000 or .6% under the FY 2020 Budget. The FY 2021 Budget includes 778.9 FTE's down from 793.5 FTE's. Below are significant assumptions in the FY 2021 budget:

- Total budgeted FTE's of 778.9 are 14.6 FTE's lower than FY 2020's Budget;

- An increase in wages for employee's in FY 2020 was not executed as planned. In FY 2021 management is providing for the wage increase earlier in the fiscal year than previous years;

- In FY 2021, 13.5 FTE's were added related to SVMC taking over the administration of many Blueprint staff and functions;

- Approximately 11 additional FTE's related to the new functions and activities related to the COVID-19 Pandemic. They include additional staffing at the reception desks on the main campus, staffing of the Respiratory Evaluation Unit, and staffing for the COVID-19 testing unit. Many of these FTE's were redeployed from other area's in the Hospital;

- Utilizing national recognized staffing benchmarks management has made changes in the staffing models for care at the bed side, in the physician practices, ancillary services and in support services of nearly 40 FTE's. This is being achieved through the redeployment, attrition, retirements, as well as elimination of positions.

Table #8 identifies the major components which makes up the decrease in salary and wage budgeted expense compared to the FY 2020 budget amounts.

Table #8 – Components of the Salaries and Wages budget changes

	Amounts ***(rounded)***
Compensation increase FY 2021	$1,043,000
Compensation increase FY 2020, not executed	(750,000)
Blueprint FTE's	942,000
COVID-19 related FTE's	652,000
FTE reductions and redeployed FTE's	(1,950,300)
Other changes	(260,700)
Net decrease in salary and wage expense	***$(324,000)***

Employee Benefits

In the FY 2021 Budget, the Employee Benefits are increasing by $736,000 or nearly 5% above the FY 2019 actual and the FY 2020 Budget. The Employee Benefit Budget is $15,769,277.

- Health insurance trends for SVHC/SVMC have been favorable for several years however months before the Pandemic the trends were negative. After consultation with the Hospital's advisors and considering the possible impact of the Pandemic the range of increases to consider was eight to fifteen percent. Management is budgeting an increase of approximately 10% in FY 2021.

- The defined benefit pension plan is budgeted at a credit of $600,000.

- Workers compensation plan at SVHC/SVMC saw an increase in FY 2019 and trends are down in FY 2020. There is a slight reduction in the expense in the FY 2021 budget. This is attributed to FTE count and some experience.

The other costs in this category are based upon historical and mandated percentage of salaries and wages. They include FICA, Defined Contribution Pension Plan, Life Insurance, and Short and Long-Term Disability. SVMC is a self-insured for unemployment.

DH Professional Services Agreement (hereafter "PSA") Costs

This category of expense is budgeted to increase by nearly $740,000 or 5% in the FY 2021's Budget compared to FY 2020's plan. The total cost of $32,737,554 includes salary and wages for the contracted individuals as well as employee benefits, malpractice costs and approximately $400,000 of other support costs. Table #9 below provides FTE details provided via the PSA.

Table #9 – PSA related FTE's

	FY 2019 Actual	***FY 2020 Budget***	***FY 2021 Budget***
Physician	58.00	63.23	61.55
Assoc. Providers	30.10	30.01	29.42
Admin. Support FTE's	3.80	3.80	4.10
Total PSA FTE's	***91.90***	***97.04***	***95.07***

Medical/Surgical Drugs and Supplies

Drug costs are budgeted to increase by $1,129,000 or 7.8% in the FY 2021 Budget over FY 2020. Over 80% of the drug costs are incurred in the Cancer Center each year. The budget assumes continued drug cost savings in FY 2021 because of initiatives with DH to identify areas for savings and 340B program savings.

Health Care Provider Tax

The absolute dollar amount of the decrease in the Provider Tax budget is $732,888. The FY 2021 provider tax is budgeted at 6% of the projected FY 2020 revenue with an adjustment for the difference between the State's fiscal year and the Medical Center's fiscal year.

Depreciation and Amortization Expenses

The depreciation and amortization expense will be budgeted at approximately $6,350,000. This is based upon the remaining FY 2020 capital budget to be incurred between August to December 2020 and a FY 2021 Capital Budget of $3,750,000 million and the remaining estimated useful lives of buildings and equipment acquired in FY 2020 and prior.

Interest Expense

Interest expense in FY 2021 is budgeted at $900,000. In order to maintain operating cash balances, repay the non-interest bearing advances as well as others, management is anticipating an increase related to utilizing the line of credit with TD Bank in FY 2021. In addition, there are several small capital leases expected to be executed in order to preserve cash in the capital budget.

Other Operating Expenses (Including ACO Participation Fees)

This GMCB category of expense is $41,682,148. Below are the significant components to this grouping of costs.

Supplies

The supplies expense budget is anticipated to decrease $475,605 or 3.8% compared to the FY 2020 Budget. The Medical Surgical supply expense budget is $11,914,428 compared to $12,309,033. This is driven by volumes and lower Information Technology supply costs.

A number of cost saving initiatives identified by managers and materials management were included in the FY 2021 budget that were being worked on prior to the COVID-19 Pandemic. An inflation factor of 5% was included in the budget as well as additional costs for Personal Protective Equipment. Additional, program savings are being explored, currently.

Purchase services, utilities, insurance and other

Included in this section is approximately $1.5 million of OneCare VT dues. This is based upon FY 2020 actual and does not consider any recent proposals for the dues to be reduced since they have not been approved by the OneCare VT Board or GMCB.

This category of expense is budgeted to increase by $1,378,193 or 4.9%. Below in Table #10 will provide details on the material changes in the cost composition of this category of expense.

Table #10 – Purchase services, utilities and other significant changes

	Amount
GI Physician contracted service	$658,495
OR DH contracted service	276,000
340B Contract dispensing fees	210,000
Blueprint purchased services	183,300
Lab contracted salaries	128,000
Insurance	125,400
MD Live	65,000
Education Software	60,800
Food and Nutrition - Food	(250,359)
Other changes	(78,443)
Total changes	***$1,378,193***

Below are summary explanations of some of the changes in the FY 2021 Budget compared to the FY 2020 Budget.

GI Physician – In FY 2021, SVMC anticipates contracting with a new GI physician group to provide endoscopy services. This agreement will enable SVMC to meet its budgeted volumes. The contracted services expense is budgeted for $658,495, this expense and service was previously under the DH PSA;

Operating room contract services – The increase in the FY 2021 of $276,000 reflects the expense related to agreement with DH to provide management Perioperative services at SVMC;

340B contract pharmacy dispensing fees – The FY 2021 budget is based on costs currently be paid for contract pharmacy dispensing fees, approximately $210,000 over what was budgeted in FY 2020;

Blueprint purchased services – In FY 2021, SVMC anticipates assuming the administration of the Bennington Blueprint, currently administered at the UHA. Additional revenues has been budgeted to offset this expense;

Laboratory contracted salaries – The FY 2021 Budget includes expenses related to contracted labor for a laboratory technologist position that is currently vacant and unable to recruit a qualified candidate for the position;

Insurance – The FY 2021 Budget anticipates a significant increase in insurance premiums in the coming year;

4. Operating Margin and Total Margin

The FY 2021 proposed Budget assumes a 0.1% operating margin and 0.4% total margin. The operating and total margins are down significantly from the approved FY 2020 budgeted margins and SVMC's historical performance. SVMC's performance has been constant over the past several years. The FY 2021 Budget is based upon the pre-COVID 19 volumes. As of February SVMC volumes and revenues were over four percent behind plan. The annual projected FY 2020 pre-COVID 19 revenue variance was nearly $7 million.

C. CHANGE IN CHARGE REQUEST

In this Budget the gross charge increase is 5%. The realized amount of the charge increase is 3.46%. Physician practice charges will not be increased. Drugs and medical supplies continue on a cost plus method which will be consistently applied in FY 2021 as in FY 2020, FY 2019 and prior years. Realization of the $3.0 million is dependent on commercial insurance, Blue Cross and managed care volumes. Management will increase approximately 69% of the Hospital charges at a rate of 5% and the remaining charges will remain at current levels or at cost plus. The charge increase assumes no impact of COVID-19.

For Medicare and Medicaid payers the increase in gross charges will not directly increase NPSR. For commercial insurers the increase in gross charges will increase net patient service revenue but not on a dollar for dollar basis. Commercial insurance impact varies depending on the individual payer contracts. Bad debt and free care are generally written off at charges therefore a rate increase will increase bad debt and free care by the charge increase amount. The charge increase impact on bad debt and charity care will be approximately $300,000 of the $600,000 increase included in the budget.

The dollar value of 1% NPR/FPP FY 2021 overall change in charges is approximately $600,000.

D. SERVICE LINE ADJUSTMENTS

No planned service line adjustments are included in this budget submission. In the FY 2021 budget management has included mainly additional costs for safety measures and monitoring to assure a safe environment for SVMC's patients and employees, as previously mentioned.

E. RISKS AND OPPORTUNITIES

SVMC reviews its risks and opportunities routinely. The review at any point does not address all the environmental, economical, and political situations. The following will address items that may have a direct effect on the SVMC's operating budget for FY 2021 that were discussed with SVMC's Board of Trustee's during the Budget review process.

Risk – Patient Volumes/Payer Mix – the single largest risk is the possible lasting effect on patient volumes, mainly elective volumes related to COVID-19 Pandemic. No consideration was provided in the Budget for this risk. Elective volumes are mainly commercial insurance cases which provide positive contribution margins, will they return? Will Medicare utilization be greater than expected?

Possible greater unemployment due to the economy will that increase Medicaid volumes, created higher levels than budgeted bad debt and charity care levels? Will pressures on the economy cause employers to reduce or eliminate coverage to employees and their families? Will the social determinants of health progress made over the past years in Bennington County be reversed?

Risk/Opportunity – Provider recruitment – Continued challenges in recruiting quality providers to the region. This has the possibility to be an opportunity if providers are looking to move to rural settings from urban settings as a result of the Pandemic.

Opportunity – Payment rates Medicare – Included in the budget is a 1% increase for all Medicare revenues, both fee for service and fixed prospective payment model. The possible 4.3% Medicare increase is still being discussed for the fixed prospective payment model, according to OneCare VT finance team. Each 1% is worth over $200,000 in additional revenues to SVMC in the fixed prospective payment model.

Opportunity – New Providers and New GI Group agreement – greater volumes above the run rate prior to COVID-19 could produce a positive contribution margin on this service. Goal first to achieve run rate volumes then additional volumes and positive contribution margin.

Risk/Opportunity continued participation in OneCare VT – CY 2019 SVMC did not perform well and had a negative impact on the financial performance of the Medical Center based upon estimates recently received by SVMC. Continued negative outcomes could have permanent effect on the Medical Center's financial health. If the demographics' improve and the efforts to improve the health status of the Medicare and Medicaid population there may be long-term opportunities.

Risk – 340B program – the increasing dependency by SVMC and the hospitals across the country on this program. Currently the benefit to SVMC is over $5 million, annually.

Opportunity Additional Drug cost savings 340 B – management is evaluating findings of a third party advisor that there may be $300,000 of unbudgeted savings.

Risk – Staff retention and recruitment – included in the Budget are wage increases. SVMC's average hourly rate has averaged between 4 to 5% below the VT averages. Additional funds may need to be allocated. The workforce is aging. Recruitment of qualified individuals to replace the aging workforce will create challenges. The risk may be reduced through the arrangements with local colleges and the use of remote working.

Risk – Health Benefits – included in the budget is the low end of the range for increases in health benefits. Using high end of the range the difference is nearly $500,000.

Risk – Inflation – included in the budget are two inflation factors which are lower than published ranges. One percentage point off on each is nearly $475,000 risk in the budget.

Opportunity ACO Dues – Management budgeted CY 2020 dues levels in FY 2021. As reported earlier the OneCare VT finance team has reported that there ***may*** be a reduction of dues that could amount to $400,000 to $500,000.

The above are just a few items specifically addressed in the FY 2021 Budget review process. There are many other risks and opportunities facing the healthcare industry and society today.

F. ONECARE VERMONT PARTICIPATION (due September 1, 2020)

Currently, SVMC is planning to continue to participate in the Medicare, Medicaid and Blue Cross VT QHP plan as well as the other minor programs. SVMC reserves the right to withdraw from the planned programs, since as of July 30, 2020 the risk corridors both upside and downside have not been agreed to by OneCare VT with the payers, especially Medicare.

SVMC has provided approximately $1.5 million in dues in its budget. As previously discussed this is based on CY 2020 amounts. OneCare VT's finance management has communicated that it is their intent to reduce the dues to SVMC and other participants, however, OneCare VT needs to have this plan approved by its Board and the GMCB which will happen later this year.

The maximum risk liabilities and upside opportunity have not been fully negotiated with the payers to the best of SVMC's knowledge at this time. As a result, SVMC cannot provide the GMCB with that information, as requested

The table below provides estimated NPSR breakout by fee for service and fixed payment model.

Total NPSR breakout

Fee for service NPSR	$130,039,128
Fixed prospective payment NPSR	37,050,000
Total NPSR	***$167,089,128***

Fixed Prospective Revenue

Medicare	$23,900,000
Medicaid	7,450,000
Blue Cross Exchange – ***upside only***	5,700,000
Total	***$37,050,000***

SVMC's reserves the right to withdraw from the respective payer plan if the negotiated risk corridors are not acceptable to SVMC's Leadership.

G. CAPITAL INVESTMENT CYCLE

The Medical Center currently has submitted a CON for a significant upgrade to the Emergency Room, front entrance, traffic flow and wayfinding. No costs associated with the Emergency Room project are included in the FY 2021 budget at this time.

Management in the coming years will be evaluating significant changes to the physical plant of the Medical Center that could 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 in process and ever changing due to recent developments.

The capital spend in FY 2021 will be $5.750 million. As mentioned earlier the FY 2020 capital budget was put on hold earlier this year due to the Pandemic. Based upon current conditions the hold will be lifted and bridge into FY 2021. Consideration on a greater amount for FY 2021 will be evaluated by management and the Board of Trustee's if the operating performance of the organization exceeds the budgeted break even in FY 2021. Most of the remaining FY 2020 capital and FY 2021 will be routine replacements of aging equipment. SVMC's age of plant exceeds 18 years.

* * * * * *

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.