

VIA EMAIL

November 16, 2020

Ms. Donna Jerry
Green Mountain Care Board
144 State Street
Montpelier, VT 05602

Ref: Docket No. GMCB-019-19con, Southwestern Vermont Medical Center, Modernization of Emergency Department and Hospital Main Entrance, Project Cost: \$25,801,975

Subject: SVMC responses to October 16, 2020 questions

Dear Ms. Jerry,

Below you will find responses to the questions from your October 16, 2020 letter to Mr. James Trimarchi related to the Modernization Project referenced above.

The project was compiled and submitted to the Board prior to the pandemic. Since the start of the pandemic and at least monthly, SVMC's management has evaluated the merits of this project from both a financial perspective as well as from the delivery of care perspective. Each time the leadership team concludes that we must do the project. The needs of the community and what the caregivers need to provide the highest quality of care always outweighs any financial impact. Our community recognizes the need as well and has committed to-date nearly \$15 million in fundraising efforts through pledges and contributions.

The financial plan submitted was prepared pre pandemic. The most significant assumption or guardrail in the plan was to be within the 3.5% annual increase in Net Patient Service Revenues (hereafter "NPSR"), excluding new services and volumes, which the Vermont hospitals have been working together with the Board to achieve. The original financial tables submitted met this goal.

The pandemic created uncertain times. If the financial plan was prepared today, I believe, as soon as management would complete it the assumptions would likely change. The revised financial tables are SVMC's current best estimates.

Below are the questions and responses to each.

GMCB Question

- 1) In order to better understand the impact of the FY 2021 change in charge on this project please revise the assumptions and all financial tables to reflect a change in charge rate of 3.5% for FY 2021 and resubmit.**

Management Response

The income statement financial tables without the project and with the project, were updated using the FY 2021 budget. The FY 2021 budget was prepared in the shadow of the early stage of the pandemic and the two-month shutdown. Management is of the opinion that FY 2021, is going to be a transitional year and by the beginning of FY 2022 there will be normalcy. The income statement financial tables changes, per the request, shows that.

Entering the FY 2021 budget in the financial tables' results in SVMC's gross charge increase to be 1.8% above the FY 2020 budget. Not the 3.5% approved by the Board. They are two different numbers. The 1.8% has changes in volumes, payer mix and demographics. The 3.5% is the net increase of individual charges. In the approved FY 2021 budget the gross charge increase was 5% for approximately 69% of the Hospital charges which realized approximately a 3.5% increase. Another effect of entering the FY 2021 budget in the tables shows that the gross charge increase will increase to 7.9% not the 5.0% on the original tables in FY 2022. Questions 2 and 3 will address the original submitted increases.

The revised financial tables for FY 2022 through FY 2024 will remain the same as submitted. SVMC's management position is that FY 2020 and FY 2021 will not be normal years. FY 2022 and thereafter will return to normalcy and get back to more normal trends.

GMCB Question

- 2) Please explain SVMC's reasoning in projecting changes in charge for FY 2022-2024 that are 2-3% above historically approved changes in charge.**

Management Response

The 2-3% gross patient care revenues or charge increase has several components. The development of the Hospital's Five Year Financial Plan focused on managing the organization to be as close to the 3.5% NPSR guardrail, excluding new services or volumes, which the hospitals in Vermont have been attempting to manage for several years.

The financial tables submitted had growth in NPSR of:

FY 2022	3.8%
FY 2023	3.8%
FY 2024	4.0%

In SVMC’s Strategic Plan initiatives to increase volumes from Massachusetts and New York were included. These originally were going to start up early to mid-fiscal year 2021 but will likely be delayed due to Pandemic.

Another initiative in the Strategic Plan, was to reduce outmigration. Data shows that Medicare payment rates at neighboring hospitals for services, SVMC provides, are greater than SVMC’s. If SVMC can reduce outmigration SVMC can reduce the cost of care to Vermonters.

The initiatives were entered into the plan. Below is the list of initiatives followed by the gross charge and NPSR amounts included in the plan and the effect on year-to-year changes.

- Additional referrals from Massachusetts - Urgent Care Partnership;
- Primary Care Telemedicine - Joint Venture;
- Vascular Services - St. Peters service at SVMC;
- Orthopedic Services - full complement of providers for the first time in four years.

Gross Charges

	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
Baseline charges	<u>\$398,993,308</u>	\$413,106,519	\$437,009,302	\$462,320,280
Initiatives gross charges		<u>2,676,586</u>	<u>3,969,307</u>	<u>5,647,333</u>
<i>Gross charges</i>		<u>\$418,783,105</u>	<u>\$440,998,609</u>	<u>\$467,967,613</u>
<i>Baseline charge increase – without initiatives</i>		<u>4.3%</u>	<u>5.0%</u>	<u>5.8%</u>
<i>Total charge increase – as submitted</i>		<u>5.0%</u>	<u>5.3%</u>	<u>6.1%</u>

Net Patient Service Revenues

	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
Baseline NPSR	<u>\$177,289,608</u>	\$182,590,619	\$188,760,065	\$195,405,593
Initiatives NPSR		<u>1,500,000</u>	<u>2,250,000</u>	<u>3,250,000</u>
<i>NPSR</i>		<u>\$184,090,619</u>	<u>\$191,010,065</u>	<u>\$198,655,593</u>
<i>Baseline NPSR increase – without initiative</i>		<u>3.0%</u>	<u>3.4%</u>	<u>3.5%</u>
<i>Total NPSR increase – as submitted</i>		<u>3.8%</u>	<u>3.8%</u>	<u>4.0%</u>

Management conservatively estimated the NPSR when the plan was developed.

Bennington County and surrounding areas are seeing, before and during the pandemic, the population increasingly moving to Medicare and toward Medicaid payers. As a result, the requested charge increase needs to grow to realize the same amount from a smaller commercially insured population. Under the OneCare Vermont Model, if SVMC can reduce outmigration and keep a greater number of patients local, the patient experience and quality would improve. In addition, it would reduce the cost of care in the population health model. In the amounts presented in the financial tables, this was not considered but could be an opportunity. The exact quantification of the opportunity has been delayed due to the pandemic.

Finally, over the past years, SVMC has performed comparative reviews of its charge structure comparing to the State of Vermont and bordering states. SVMC’s charges on average are below the Vermont State average. In addition, SVMC’s charge increases have been below the State of Vermont’s weighted average for all Hospitals since 2015 by 2.4% and 1.2% since 2018. The compounding effect creates a greater variance in SVMC charges related to charges of other Vermont hospitals as we move forward.

All of the above are factors in our decision making process. Achieving the 3.5% NPSR target is the single most significant component in the decision making process.

GMCB Question

3) Please explain SVMC’s contingency plan for FY 2022-2024 if the projected 5%-6% change in charge increase are not approved and are more in the range of the historical percentages approved.

Management Response

If SVMC does not receive the charge increase projected at 5%-6% the effect would reduce the projected operating margins before management action. The operating margin with the project in FY 2024 is approximately 1.0%. SVMC through FY 2020 has had operating margins over 3%. FY 2021 through FY 2024 the operating margins are projected to decline with or without the project. It is management's opinion that the decline in operating margins are caused by many factors. Below are a few:

- Operating costs are increasing greater than the NPSR 3.5% guideline;
- Increased Medicare and Medicaid patients due to service area demographics;
- SVMC has maintained lower costs and charges on average than the average Vermont hospital but that trend is getting more difficult to manage;
- Population decrease throughout SVMC's service area.

SVMC has historically maintained favorable consistent operating margins and leadership is looking to maintain these trends. The question asked "what is the contingency plan," at this point SVMC's contingency plan, would be to evaluate all we do and make the necessary adjustments to be able to meet the healthcare needs of the community serves with the resources of the organization. At this time, there is no specific plan for FY 2024, however, SVMC will respond to the challenge as we have in the past.

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The SVMC management team is available to discuss with the Board or staff our responses or any other matter related to the project. We would like to thank the Board and GMCB staff for the continued positive working relationship.

I can be reached at 802.447.5011 or at stephen.majetich@svhealthcare.org

Sincerely,



Stephen D. Majetich
Chief Financial Officer