



August 12, 2019

Dear Health Care Advocate:

Springfield Hospital understands the importance of participating in the Green Mountain Care board's hospital budget process to provide part of the overall picture of Vermont's health care system and to reduce unnecessary cost for Vermonters while ensuring access to care and balancing the financial health of hospitals. For the past seven years, the Office of the Health Care Advocate (HCA) has asked hospitals questions about their budgets. Springfield Hospital takes valuable time and resources to prepare answers to these questions, often while they are preparing for their presentation in front of the Green Mountain Care Board (GMCB).

This year and in previous years, the GMCB worked with the HCA to include their questions in the budget guidance document so that hospitals could answer HCA questions as they prepare their budget proposal. The understanding was that any follow-up questions from the HCA would respond to information in the hospital budget reports and be tailored to the individual hospital. This did not happen last year or this year. Instead, Springfield Hospital received a letter that instead asked several questions that have already been asked through the hospital budget guidance and subsequently answered.

In the spirit of collaboration and transparency, we have answered the HCA's questions below to the best of our ability. We are happy to work with the HCA and GMCB to further streamline this process and ensure the best use of our collective resources.

VAHHS' proposed responses to the HCA questions follow:

1. **Please provide your budgeted changes in utilization by payer and service category (e.g., inpatient, outpatient, professional).**

This answer can be found in Appendix VI, Table 1.

2. **Commercial Charge/Rate Change and Net Patient Revenue**

- a.) **Please explain in detail how you plan to implement your commercial charge or rate change, if applicable.**

This answer can be found in Appendix VIII.

- b.) What is your anticipated commercial charge/rate change for each service area (e.g., inpatient, outpatient, professional)?**

This answer can be found in Appendix VIII.

- c.) What commercial utilization assumptions for each service area were used to determine how the commercial charge/rate change translates to the commercial net patient revenue change included in your budget?**

This answer can be found in Appendix VI.

- d.) Do these utilization assumptions align with those in the Green Mountain Care Board's 2020 Vermont Health Connect rate filings? If no, please explain any differences.**

In developing our budget, we determine what is needed to serve our patients and communities and remain sustainable while minimizing cost.

3. Pharmacy Costs

- a.) Please provide your budgeted medical pharmacy trend for commercial payers, separated by unit cost and utilization.**

"On average, pharmacy inflation is approximately 5% subject to utilization."

- b.) Please separate any change in unit cost by expense (cost of obtaining the drug) and profit margin.**

In FY 2018 the cost of drugs approximated \$1,762,000.00 and gross revenue was \$5,986,800.00. Projected for FY 2019 the cost of drugs is expected to approximate \$1,552,143.00 and gross revenue is expected to be \$6,211,000.00

- c.) How does the hospital determine its profit margin for each drug (e.g., flat fee, percent of cost)?**

Below is a grid which is utilized to determine the price for each pharmaceutical dispensed by the hospital pharmacy. All patients are charged the same price regardless of the reimbursement the hospital might expect.

PHARMACHY MARK-UP	
Cost	Mark-up
\$0.01-134.99	X5
\$135-155.99	X4
\$156-574.99	X3
\$575 and above	X2.5

4. How would you approach splitting your expenses into medical, administrative, and other categories?

Hospitals are complex organizations with multiple cost centers, all of which contribute to and/or are required for effective patient care and regulatory compliance. Some departments, like financial services and medical records, represent administrative overhead that cannot be avoided and which Springfield Hospital has minimized by making those areas a focus point when the hospital reviewed its staffing levels and made reductions in February 2019.

Sincerely,



Michael J. Halstead
Interim Chief Executive Officer
Springfield Hospital