

August 9, 2019

Vermont Legal Aid, Inc.  
Office of the Health Care Advocate  
264 North Winooski Avenue  
Burlington, VT 05401

To whom it may concern:

The information below is Southwestern Vermont Medical Center's (hereafter "Medical Center" "Hospital" or "SVMC") responses to the Vermont Legal Aid's questions outlined in the July 26, 2019 letter to the Chairman of the Green Mountain Care Board (hereafter "GMCB"), Mr. Kevin Mullin.

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

***Management Response:***

The information can be found in Appendix VI, Table 1 of SVMC's FY 2020 budget submission. In addition, below is from the FY 2020 budget submission's narrative.

The components of the increase in Net Patient Service Revenue (hereafter "NPSR") are listed on the tables below compared to FY 2019 NPSR. Table #1 on the following page provides the components which pertain to the rate/price changes which SVMC receives for services rendered. Table # 2 highlights the significant changes in the FY 2020 budget submission that is related to volumes or physician acquisition. A significant portion of the increases in Table #2 are dependent on recruiting physicians, retaining providers, as well as increasing volumes.

Table #1 – Rate/Price changes (what SVMC gets paid)

	<u>Amount</u>	<u>Percent of FY 2019 NPSR</u>
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%)
<i>Subtotal</i>	<u>2,218,000</u>	<u>1.34%</u>
Net change in bad debt and charity care	(200,000)	(0.12%)
<b>Total changes in rate</b>	<b><u>\$2,018,000</u></b>	<b><u>1.22%</u></b>

Table #2 – Volumes and Service changes

	<u>Amount</u>	<u>Percent of FY 2019 NPSR</u>
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	(278,704)	(0.17%)
<i>Subtotal</i>	<u>3,764,296</u>	<u>2.28%</u>
New Anesthesia professional revenues	<u>1,301,000</u>	<u>0.79%</u>
<b>Total volume and service changes in revenues</b>	<b><u>\$5,065,296</u></b>	<b><u>3.07%</u></b>

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

- a. Please explain in detail how you plan to implement your commercial charge or rate change, if applicable.
- b. What is your anticipated commercial charge/rate change for each service area (e.g., inpatient, outpatient, professional)?
- 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?

*i. 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.*

**Management Response:**

2a. This answer can be found in Appendix VIII.

2b. This answer can be found in Appendix VIII.

2c. This answer can be found in Appendix VI

2i. In developing SVMC's FY 2020 budget assumes commercial utilization to decrease by approximately 1% with a shift primarily to Medicare payer. The assumptions utilized in the budget were determined based upon the needs of SVMC's market and the providers in the service area.

**3. Pharmacy Costs**

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

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

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

**Management Response:**

In the FY 2020 budget SVMC's 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. *This is a significant risk factor in the FY 2020 budget* for SVMC since the trend as reported by many purchasing groups have the price increase trend at over 8%, consistently. The overall utilization of medications in total are not anticipated to increase significantly since the volume area's increasing do not utilize high cost drug, except in the Oncology service. The increase anticipated in volumes the clinical teams believe they can control costs via the pharmacy stewardship activities and increased 340B purchasing.

As for the change in profit margin SVMC does not have a cost accounting system which if designed correctly and maintained could identify the contribution margin or loss by unit. The drugs administered in the care of patients is just one component in the delivery of care to patients. Additionally, payments from Medicare and Medicaid

typically are for the total care of the patient and not separated by each item used in the treatment of the patient. Allocation of the payments is also another challenge and if SVMC had a cost accounting system the allocation of the payments would be an allocation subject to challenge by users of the data.

SVMC is unable to provide profit margin for each drug utilized in the Hospital at this time.

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

***Management Response:***

There are several ways the Hospitals are required to report their expenses. First, for financial reporting the American Institute of Certified Public Accounts (hereafter "AICPA") provides guidance for Hospitals to report expenses. Second, Medicare requires all participating Hospitals to file a Medicare Cost Report annually. CMS provides specific guidance and requirements related to the reporting of expenses, charges and other information. Third, if the Hospital is a not for profit entity on Form 990, Part IX expenses are reported in over 25 categories, then broken out into three classifications, program services, management and general, and fund raising. A fourth requirement in Vermont is the reporting to the Green Mountain Care Board where there are specific expense reporting requirements different than the tree previously mentioned.

As demonstrated above there are several ways to report the same expenses. Hospitals are complex organizations with multiple cost centers, all of which contribute to and /or are required for effective patient care and regulatory compliance. My approach if there was a need for another way to report expenses, I would try to understand what would the purpose and need for the request and develop a methodology to address the specific need.

If there are follow-up questions or information needed please arrange a call through my administrative assistant Theresa Smith at 802-447-5002.

Sincerely,



Stephen D. Majetich  
Chief Financial Officer