

Southwestern Vermont Medical Center
Operating Budget
FY 2025

A. Executive Summary

Southwestern Vermont Medical Center (hereafter “SVMC” or “Hospital”) continues to transform its organization in order to position itself as a regional referral hospital in the ever-changing health care environment. There were several guiding principles that were used when developing the SVMC FY 2025 budget.

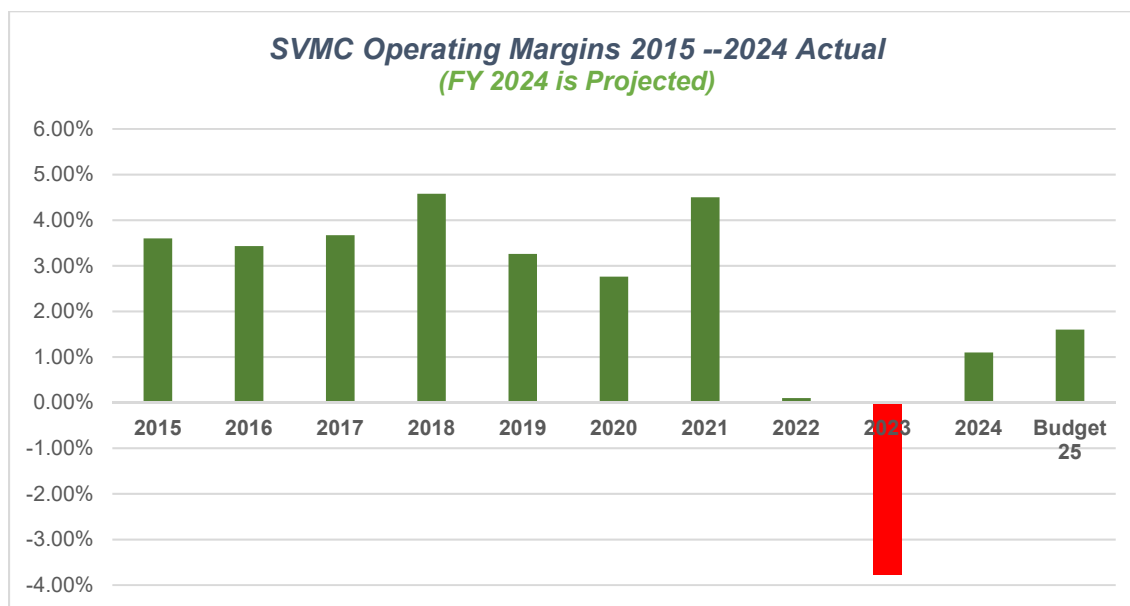
1. Stay in the guidelines set by the Green Mountain Care Board
2. Improve operating performance
3. Broaden community wide benefits through increased access to care
4. Enhance the value of care for our patients (better outcomes at a lower cost)
5. Continue to develop the Dartmouth Health integration as a member hospital

The SVMC FY 2025 Budget has met all of these goals and complies with all Green Mountain Care Board guidance.

SVMC continues to focus on patient centered care and community benefit as indicated by the following recent recognitions:

1. Currently CMS 5-Star hospital.
2. Five-time Magnet award designated institution for nursing excellence.
3. Leap Frog Hospital A-rating for patient safety.
4. AHA National Award winner for Rural Community Leadership and Collaboration.
5. Eight time *Best Places to Work* award winner by Vermont Business Magazine/Chamber of Commerce.
6. Recognized by Newsweek as a Best-In-State Hospital
7. Each of SVMC’s primary care practices have earned the National Committee for Quality Assurance’s prestigious distinction of being a Patient-Centered Medical Home.
8. SVMC’s Renal Dialysis team has received the highest possible ratings from CMS, five stars for quality and patient engagement.
9. 100% board certified or eligible physicians on SVMC’s medical staff.

SVMC’s historical financial performance which led to operational stability was challenged in FY 2023 after being significantly impacted (like most rural hospitals) by the results of the pandemic and other related economic pressures. In FY 2024, SVMC enacted a comprehensive performance improvement plan and saw operating results improve, as planned, in the budget. Management expects to build on those improvements in FY 2025. The below chart depicts this overall trend.



As shown from the chart above, the financial projections are for continued improvement. Management believes it needs to strive for a 3% operating margin for continued financial sustainability and resources to reinvest in the employees, property, plant & equipment, and other initiatives to help increase the health of the population served. FY 2025 is a step in that direction and expects to be able to reach that goal in future years.

B. Background

The centerpiece of SVMC's long term strategy is to develop an integration partnership with the Dartmouth Health (DH) system with the overall plan to transition to a regional referral center for the southern Vermont region. With the partnership of DH, SVMC will expand its scope of services offered locally to treat more complex patients. The goal is to reduce the need for Vermonters to migrate out of state to facilities in New York, Massachusetts and New Hampshire. The opportunities that SVMC will continue to pursue through the integration and membership within DH are the following:

1. Clinical enhancements within key service lines such as oncology, dialysis, cardiovascular, mental health, geriatric and surgical services;
2. Strengthen primary care within SVMC's service area through an expanded primary care site in Bennington and development of a long-term plan to create a DHMC sponsored family medicine residency program at SVMC;
3. Create operating efficiencies to enhance sustainability through the following initiatives:
 - supply chain/purchasing opportunities,

- institute shared services in areas such as IT, revenue cycle, supply chain, and drug cost management,
- facilitate shared administrative savings (i.e. institute executive overhead savings, insurance cost, compliance, planning, cost of borrowing, shared treasury functions, etc.),
- expand physician practice support services,
- partner on enhancing the EMS and patient transportation systems
- continue to transition to a population health model reducing reliance on fee for service medicine.

SVMC continues to assess the health needs of the population within the southern Vermont region as we update our Community Needs Assessment. The Board of SVHC in collaboration with the Dartmouth Health system is committed to strategies to help address the major drivers impacting the health and welfare of the communities we serve.

Fiscal year 2025 will be a budget year that continues the transition into the DH system. The budget represents a steady state of operations with incremental improvement, similar to how FY 2024 is operating. A tremendous amount of effort is going into the transition to allow SVMC to become a regional referral hospital, keeping patients at the most appropriate setting, closer to home and at a lower cost. Major changes are not expected during the transition over the 12 months, but savings will begin to impact the operations in areas like supply chain, pharmacy, contract services and administrative salaries as SVMC leverages its Dartmouth Health membership to bring a higher level of service at a lower cost to the southern Vermont region.

C. Budget Questions

a) **Substantive variances:** SVMC's current year projected actual results for FY 2024 are consistent with the FY 2024 GMCB approved Budget. Net Patient Service Revenue (NPSR) is anticipated to be at or slightly under budget based on current projections. Other Operating revenue is anticipated to be over \$2.8 million over budget due to increased volume in our 340B Contract Pharmacy Program (a result of work done by DH 340B pharmacy team working collaboratively with SVMC pharmacy) and additional unbudgeted grant revenue. These positive variances were offset by higher expenses related to the additional volume in the 340B Program and expenses related to the grants. Total expenses are anticipated to be approximately \$2.4 million over budget with the largest variances in pharmacy drugs/expenses related to 340B and Physician salaries.

The FY 2025 Budget assumes Net Patient Services Revenue being 3.5% over the FY 2024 Budget, in compliance with the GMCB guidance. Patient volumes are consistent with current fiscal year with slight increases in primary care, operating

SVMC FY 2025 Operating Budget

June 21, 2024

Page 4 of 24

room and imaging. No major staffing changes are expected for either providers or support staff. In FY 2025 Other Operating revenue assumes an increase of \$4.7 million over the FY 2024 Budget with the largest increases approximately \$3.1 million in 340B Contract Pharmacy revenue and \$1.2 million in additional grant revenue. The largest increase in grant revenue is from the Nursing Pipeline Grant where SVMC provides tuition and paid leave for employees that allows them to pursue a nursing degree. This program has been instrumental to SVMC’s initiative to not use travel nurses. Like FY 2024, there are no travel nurses in the FY 2025 budget. Total expenses in the FY 2025 Budget are anticipated to increase by \$10.3 million or 4.9% over the FY 2024 Budget. The largest increases include; approximately \$6.3 million is related to increase labor and benefits costs for staff and physicians, \$2.5 million in pharmacy costs with the balance in supplies, purchased services and Provider tax.

Below is a table comparing the FY 2024 actual results, FY 2024 projected based upon April 2024 results and the FY 2025 Budget.

	<i>FY 2024 Budget</i> <small><i>(As approved by GMCB)</i></small>	<i>FY 2024 Projected</i>	<i>FY 2025 Budget</i>
Net patient service revenues	\$203,459,707	\$203,255,952	\$210,580,797
Other operating revenues	10,191,106	13,058,456	14,928,546
<i>Total operating revenues</i>	<u>213,650,813</u>	<u>216,314,408</u>	<u>225,509,343</u>
<i>Operating expenses</i>	<u>211,591,488</u>	<u>213,938,841</u>	<u>221,907,013</u>
<i>Operating gain(loss)</i>	<u>\$2,059,325</u>	<u>\$2,375,567</u>	<u>\$3,602,330</u>

The FY 2025 budget assumes the continuation of three main themes.

1. *Improving access* – Improving access and reducing out migration of patients in SVMC’s service area and bringing a portion of those patients back to SVMC.
2. *Integration* – The SVHC System and Hospital completed its integration agreement with DH, on July 1, 2023, becoming the 6th member hospital. Working with DH, management has incorporated significant savings in the budget. Integration activities with the clinical staff will enable the Hospital to improve access and reduce out migration in FY 2025 and into the future. This is a multi-year process and FY 2025 is a transition year.
3. *Financial Recovery* – Continuing the work around the financial recovery plan (which currently projects the Hospital to have an anticipated 1% operating margin in FY 2024), a 1.6% operating margin in FY 2025 is expected, with the goal of achieving a 3% operating margin in future years.

b.) **Benchmarks:** SVMC meets all the established benchmarks set by the GMCB.

A. Benchmarks for Improving Affordability

(1) Net Patient Service Revenue increase from the FY 2025 is 3.5%.

(2) The aggregate commercial rate increase is 3.4%,

B. Benchmark for Financial Sustainability

(1) The proposed budget for FY 2025 has a positive 1.6% operating margin.

c.) Assumptions in the FY 2025 Budget:

The following follows the GMCB guidance and is in the order outlined in section c.

a. Labor expenses

SVMC's budget assumes contracted labor expenses in 3 hard to fill clinical areas; 1.0 FTE in Respiratory Therapy, 1.0 FTE in Ultrasound and 1.0 FTE in Oncology. No contract nursing FTE's have been included in the budget. During FY 2024 it was also necessary to use contract labor in CT Scan and Nuclear Medicine but have successfully recruited staff for those positions and they will be filled by the beginning of FY 2025.

Full Time equivalents (hereafter "FTE's") are estimated to increase to 818.3 in the FY 2025 budget, consistent with current fiscal year actual FTE's. The increase of 6.7 FTE's budget to budget is primarily due to the addition of FTE's for the Nursing Pipeline Grant. In addition, increased FTE's have been budgeted in physical therapy and CT Scan to address access issues and increased volume.

Wage increases have been included in the FY 2025 budget. The increase will be divided between an increase in pay for most employees and an increase that will be used to address market conditions in high demand and hard to fill positions. This strategy will help keep pay rates consistent with the market demands and reduce the reliance on travelers.

Employee benefits are estimated to increase nearly 8% over the over the FY 2024 Budget. SVMC's health insurance is self-insured. SVMC's utilized an actuary to project claim levels for the FY 2025 Budget.

Physician costs (salary, benefits and liability insurance) in FY 2025 are budgeted at \$40.0 million, up from \$38.6 million. In addition, Physician Locum fees are increasing by \$1.1 million in FY 2025 Budget to cover vacancies in Urology, Obstetrics and Primary Care. Increasing access and throughput in the Medical Group is a significant driver in the 5.9% increase in the Physician costs. For over the past ten years, SVMC's physicians have been employed by DH and leased back to SVMC through a Professional Service Agreement (PSA). This has helped SVMC to recruit by having an internationally recognized academic medical center's name attached to our program. Because of the PSA, the physician and advance

practice provider salaries and benefits are recorded in purchase services instead of salary and benefit expense. This may cause some confusion when reviewing SVMC's labor expense to other hospitals or benchmarks.

As a result of the additional support from DH, SVMC was able to reduce two senior executive positions. The positions of Vice President of Administration/Chief HR Officer and the Director of Quality have been eliminated from the FY 2025 budget and the duties consolidated to existing staff. The only way this is possible, while maintaining the high level of quality for staff and patients is through support provided by the DH corporate services. The teams at DH will become integrated at SVMC, allowing HR and Quality Departments to access additional resources at the system level. SVMC expects this transition to be relatively seamless with SVMC executive team members assuming additional responsibilities. This will save SVMC approximately \$600,000 annually in salary and benefit costs.

b.) Utilization

There are several ways to analyze utilization. In general, utilization of services is expected to remain consistent to FY 2024. The review below will address significant changes included in the budget.

Inpatient utilization

Below is a table showing admission volumes and observation patients. Inpatient services represent approximately 18% of SVMC's NPSR. Overall, there is a projected and budgeted slight increase over the FY 2024 approved budget, as the table demonstrates.

<i>Admissions</i>	Admissions and Observation Patient			
	<i>Actual FY 2023</i>	<i>Budget FY 2024</i>	<i>Projected FY 2024</i>	<i>Budget FY 2025</i>
Medical/Surgical	2,061	2,126	2,208	2,208
ICU	359	353	396	396
Pediatrics	29	24	12	12
Maternity	374	329	382	382
<i>Total Medical/Surgical</i>	<i>2,823</i>	<i>2,832</i>	<i>2,998</i>	<i>2,998</i>
Nursery	363	312	360	360
Total admissions	3,186	3,144	3,358	3,358
<i>Observation patients</i>	<i>601</i>	<i>636</i>	<i>595</i>	<i>595</i>
Total patients	3,787	3,780	3,953	3,953

Initiatives designed to provide the proper level of care, improve quality, avoid readmissions, and do away with the administrative burden of having inpatient claims denied by the payers are constantly underway at SVMC. At the same time management is focused on accepting appropriate admissions to care for patients in the right setting. Through the DH affiliation, SVMC uses Telemedicine to safely

maintain patients that do not require expensive Tertiary Care hospital stays. Through the use of TeleED, TeleNeurology and TeleICU, SVMC physicians are able to consult with specialists 24 hours a day to address issues that might have previously required the patient to be transferred. In addition, patients are able to be monitored remotely to assist staff caring for patients. Over time, SVMC expects the increase in appropriate admissions as a regional referral hospital to offset the reduction in avoidable admissions, resulting in a net reduction of cost to the Vermont health system.

Outpatient Medical Group

The Medical Group is the area in the Hospital where the budgeted volumes are expected to increase. Improving access, redesigning processes and throughput changes will improve the health status of our patients and prevent costly services and inpatient stays. Additionally, management and the Medical Group Leadership believe that improving access will reduce the out migration of patients to Massachusetts, New York and New Hampshire which are more costly to Vermonters. Primary Care visits are budgeted to increase by 6.5% from FY 2023 and 2.5% from FY 2024 projected actual as the practices continue to improve productivity and increase access. As the provider base stabilizes and patient panels grow, the number of visits seen by Primary Care providers will increase. The Medical Group's professional fee revenues represent about 13% of the Hospitals revenue base. The mix of advanced practice providers and RNs in the practices working at the highest scope of their licenses will allow SVMC to increase access at a lower cost.

Outpatient – Hospital Services

The remaining revenues are defined as outpatient. Outpatient revenues combined with the Medical Group represents over 79% of SVMC's NPSR. The areas where utilization will increase in the outpatient area is projected to be in radiology and surgical services as a result of greater access in the Medical Group.

Finally, emergency room visits are projected to be close to at FY 2023 actual and FY 2024's projected levels. SVMC's emergency room has approximately 23,400 visits a year. An increase in access to Primary Care is controlling the assumption of emergency room utilization. By shifting to Primary Care, the total cost to the health care system is reduced.

c. Pharmaceutical expenses

Drug costs are budgeted to increase by \$1.3 million or 7.0% in the FY 2025 budget over projected actual FY 2024. The 2025 pharmacy market outlook by Vizient, SVMC's group purchasing organization, projected an overall increase of approximately 6.5% and other benchmarks are higher. Partially offsetting the increase in utilization, the budget assumes continued drug cost savings in FY

2025, with more drugs being bought at significantly lower prices under the 340B program. The budget also includes increased volume under the 340B Contract Pharmacy Program, so this expense is offset with additional 340B Contract Pharmacy revenue recorded in Other Operating Revenue.

d. Cost inflation

Cost inflation included in the budget is approximately 2.5%. Included is supplies are identified savings of over \$500,000 related to the integration of SVMC contracts into the DH system for operating room and lab supplies. This is above and beyond the savings that were achieved in FY 2024. As was described in the utilization description, utilization of supplies is budgeted to remain relatively consistent with FY 2024.

e. Case Mix Index (CMI)

The FY 2025 Budget is at current trend levels which are consistent with FY 2024 Budget and assume **no** substantive changes. As SVMC becomes a regional referral hospital, CMI is expected to increase.

f. Rate Changes by Payer

The proposed charge increase in the FY 2025 budget is a 4.4% increase on approximately 70% of the items on the charge master. The remaining charges will not be increased. An example of this is in the Medical Group where SVMC is paid based on fee schedules.

The 4.4% increase on the charges increased will realize \$3.627 million which represents approximately 1.7% of the total FY 2024 projected NPSR.

Medicare rates will increase by 2.5% for inpatient services as of October 1, 2024 and 1.0% for outpatient services effective January 1, 2025, including physician practices.

Medicaid rates will not be increase for any service in FY 2025.

The table below shows the rate increases included in SVMC's NPSR budget for both commercial and governmental payers.

<u>Rate changes</u>	<u>Amount</u>	<u>Percent of FY 2024 NPSR</u>
Net realization of the charge increase—		
Commercial payers	\$3,627,000	1.7%
Medicare proposed rate increase	1,190,000	0.6%
Medicaid proposed rate increase	0	0.0%
<i>Subtotal</i>	<u>4,817,000</u>	<u>2.3%</u>
Net change in bad debt and charity care	<u>(302,000)</u>	<u>(0.1%)</u>
<i>Net changes in rate</i>	<u><u>\$4,515,000</u></u>	<u><u>2.2%</u></u>

FY 2024 NPSR is estimated at approximately \$203 million and the \$4.5 million change in rate per the table represents an overall 2.2% increase over FY 2024 projected NPSR.

g. Capital Expenses

In order to keep up with maintenance of current facilities and equipment as well as invest for the future of the organization, a \$9 million routine capital budget is expected. 100% of this budget will be funded through operations, grants and fundraising.

The major breakdown of the spend for FY 2025 is:

- Information Technology \$4.7M
- Clinical Equipment 2.4M
- Facilities and Engineering 1.1M
- Contingency 0.8M

The information technology bucket is the largest projected spend for 2025. This includes infrastructure upgrades and security enhancements to meet the plan for an EPIC EMR conversion. These investments will allow future integration to the DH system which will enhance the flow of information and the ability to keep services local.

In FY 2024 SVMC filed a CON to renovate an area of the hospital for a new adolescent inpatient psychiatric unit. Since the CON has not been approved, the capital spend is not included above and the revenue & expense is not included in the operating budget.

In late FY 2024 SVMC intends to file a CON for an expansion of the cancer center. This is expected to be a \$21M project funded through philanthropy and equity.

Since the CON has not been approved, the capital spend is not included above and the revenue & expense is not included in the operating budget.

h. Financial Indicators

Hospitals track many financial metrics in order to indicate financial performance. To follow the budget guidance and instructions SVMC will discuss several key indicators for SVMC and compare them to industry averages.

Days cash on hand

This measurement SVMC reports at the end of FY 2025 will have 6 days cash on hand. That may be misleading since SVMC's parent organization holds SVMC's investments. It is anticipated that at the end of FY 2025 SVMC and the parent organization will have over 175 days cash on hand assuming a 4.5% return on assets in FY 2025.

Long term debt to total assets/Debt service coverage ratio

Long term debt to total assets SVMC's percentage is 16.2%. Lower is better for this measurement. The 16.2% is on the low end of the range. This demonstrates SVMC has borrowing capacity for capital projects. The debt service coverage ratio (hereafter "DSCR") requirement SVMC has is 1.4 times. The projected DSCR for FY 2025 is greater than 6 times. Again, this ratio demonstrates the ability for the Hospital to borrow additional funds. The assumption for FY 2025 budget is no additional debt.

These two measurements have been managed over the past years to provide cash and debt capacity for management to address the average age of plant.

Average age of plant

There are different ways this financial indicator is calculated. The general high-level method, SVMC's average age of plant calculation is projected to be 18.45 years at the end of FY 2025.

Operating margin

As mentioned earlier SVMC's goal is to achieve a 3% operating margin, annually. The operating margin for FY 2024 will be 1.1%. The FY 2025 budget is a 1.6% target and will provide a "glide path" to achieving the 3% margin goal in the future. The 3% margin allows organizations to maintain their cash position in addition to replacing and making capital improvements.

SVMC chose these financial indicators to discuss since as SVMC has started in its second century of servicing the residents in Bennington, the next several years

having operating margins, utilizing the debt capacity and cash and investments SVMC has built up will allow the reinvestment needed to the physical plant, technology and other needs to bring the average age of plant more in line with recommended levels.

SVMC has a “healthy” Balance Sheet and many of the other financial indicators monitored in the industry, SVMC is typically around the median or better.

i. Uncompensated care

The FY 2025 budget uncompensated care is budgeted at slightly higher than the projected amounts. This is demonstrated by the increase in the days in accounts receivable which SVMC is seeing both in self-pay and commercial insurance payment practices. Another factor when we look at uncompensated care is the changes in the Medicaid program. It is not clear how the “unwinding” of the continuous coverage of Medicaid affected SVMC and its patients, but SVMC has seen an increase of uninsured patient volume. SVMC has just updated the Financial Assistance policy to provide slightly higher benefits to our patients that may increase write-off’s in the coming year. The final consideration is the charge increase which SVMC is budgeting in FY 2024 which increases this amount.

Uncompensated care in FY 2024 is projected at nearly \$10.7 million. Uncompensated in FY 2025 is budgeted at \$11 million.

j. Community benefit

SVMC takes its not-for-profit status seriously by investing in our communities and offering free resources and support, beyond health care. Examples include hosting SVMC Today community forums and information sessions about medical issues and availability of care. SVMC’s Women’s and Children’s Services host breastfeeding classes, childbirth education classes, and a weekly walk-in Baby Café at Bennington Community Market, where breastfeeding parents and babies can work with SVMC’s lactation experts, track newborn milestones and can socialize with other parents. Examples of other free community events hosted in FY 24 include a series of virtual body positivity forums and participating in community events like Bennington’s Juneteenth Celebration and Bennington Pride.

Supporting local organizations and events through sponsorships and donations is also important to building a stronger community. We select organizations that work toward building healthier communities. These organizations and events include, but are not limited to: Bennington Project Independence, Healthy Kids Running (Bennington Chapter), United Counseling Services’ Superhero 5K, Bennington

Pride, Bennington Juneteenth, Merck Forest & Farmland Center, and VNA & Hospice of the Southwest Region.

These community events complement the outreach SVMC does through its weekly Wellness Connection e-newsletter and biannual *Healthy+* Magazine. Both of these free publications feature expert medical advice and resources on topics like mental health, cancer screenings, addiction support and much more. Topics are selected around health needs identified in SVMC's Community Health Needs Assessment. Wellness Connection is sent out weekly to over 35,000 subscribers and *Healthy+* Magazine is distributed throughout the communities we serve, twice a year. With 15,000 copies printed for each issue, it is prominently available at libraries, grocery stores, restaurants, our practice sites and other key areas in the towns we serve.

d.) **Risks:** Below will highlight significant assumptions, changes to operations, and possible opportunities and risks.

- Continued participation in the 340B Drug Program which allows the Hospital to reinvest in many services in the amount of \$8.5 million, annually. As a sole community hospital and a rural referral center SVMC's disproportionate share percentage (hereafter "DSH") needs to be at 8% or above. As of April 30, 2024, the SVMC percentage to remain eligible 8.36%. If as of the measurement date of September 30, 2024, the percentage is under 8% SVMC will lose the 340B benefit as of April 1, 2025, jeopardizing services provided.
- Volume increases in outpatient surgery, pain management and physical therapy. These changes add additional \$1.9 million. All other patient volumes are consistent with current levels. The risk is not realizing the volume as set forth in the budget assumption.
- Inflation in the budget is approximately 2.5% depending on expense categories, which may create a risk. Each 1% for non-salary expenses is approximately \$700,000.
- The budget assumes all the performance improvement initiatives continue in the FY 2025 budget, where applicable. These amount to approximately \$1 million. Risk includes not realizing the amount in the assumption.
- Revenue Cycle improvements have not been included in the budget. There is additional opportunity for improvement. Additional work is being done to further reduce medical necessity and timely filing denials as well.

The above are specific opportunities and risks. The Healthcare industry today has many risks. A challenging labor market, cyber-attacks, funding of government

programs, cost of technology, violence in the healthcare environment as well as others provide challenges never seen before.

e.) **Administrative vs. Clinical Expenses:** “General and Administrative Expenses” for audited financial statements captures a broad array of expenses that are not deemed “HealthCare Services Expenses” but provide support to the delivery of health care. Costs included in general and administrative are: Transcription, Medical Records, Housekeeping, Laundry, Reception, Security, Materials Management/Purchasing, Engineering, Human Resources, Employee Health, Information Systems, Telecommunications, Finance, Patient Accounting/Coding/Patient registration, Community Relations, Administration and allocation of employee benefits and depreciation. While not “direct patient care” all these areas support the delivery of healthcare.

General and Administrative expense as a percentage of the FY 2025 Budget expenses have decreased to a total of 17.4% of total expenses, compared to FY 2024 Budget of 18.1%. The various components of these expenses in the FY 2025 budget are:

- Provider Tax, OneCare and other dues \$11,996,000,
- Information Technology and Telecommunications \$7,269,000,
- Registration, Billing and Coding \$4,683,000,
- Human Resources, Child Care and Tuition Assistance \$ \$1,609,000,
- Liability and Property Insurance \$1,000,000,
- Medical Records and Transcription \$967,000
- Purchasing and Materials Management \$707,000,
- Allocations of Housekeeping, Engineering, Security, Depreciation and Fringe benefits \$4,426,000 and
- All Other Administrative and General Expenses of \$5,984,000.

SVMC continues to reduce administrative expenses wherever possible, even as inflation related to supplies, labor and purchase services continues to increase.

Salaries make up a significant portion of these expenses. The table below breaks out salary expenses by category and demonstrates SVMC’s commitment to reduce administrative costs wherever possible. Total general and administrative salaries are decreasing 1.6% from the FY 2024 budget, inclusive of a 5.2% decrease in executive management salaries.

SVMC FY 2025 Operating Budget

June 21, 2024

Page 14 of 24

<i>Category</i>	<i>FY 25B FTE's</i>	<i>FY25B Total Compensation</i>	<i>FY24B FTE's</i>	<i>FY24B Total Compensation</i>	<i>FY24B to FY25B Variance FTE's</i>	<i>FY24B to FY25B Variance Total Comp</i>	<i>%</i>
Executive Management	5.0	\$1,982,484	6.0	\$2,090,602	-1.0	-\$108,118	-5.2%
Clinical Directors	12.0	\$1,905,813	12.0	\$1,860,462	0.0	\$45,351	2.4%
Clinical all other	399.2	\$36,515,027	395.5	\$34,561,076	3.7	\$1,953,951	5.7%
Medical Practice Group	180.5	\$12,189,587	177.0	\$11,996,618	3.5	\$192,969	1.6%
Non-Clinical Directors	11.0	\$1,866,944	11.0	\$1,798,240	0.0	\$68,704	3.8%
Non-Clinical all other	210.6	\$13,174,086	210.1	\$13,391,911	0.5	-\$217,825	-1.6%
Total Hospital Staff	818.3	\$67,633,942	811.6	\$65,698,909	6.7	\$1,935,033	2.9%
Physician Salaries (PSA)	70.4	\$28,107,308	70.7	\$27,528,137	-0.3	\$579,171	2.1%
Associate Provier (PAs/NPs) (PSA)	30.4	\$4,217,317	27.5	\$3,933,690	2.9	\$283,627	7.2%
Total Providers	100.8	\$32,324,625	98.2	\$31,461,827	2.6	\$862,798	9.3%
Clinical Total	693.5	\$83,260,680	683.7	\$80,189,983	9.8	\$3,070,697	3.8%
Gen Admin Total	225.6	\$16,697,887	226.1	\$16,970,753	-0.5	-\$272,866	-1.6%
	919.1	\$99,958,567	909.8	\$97,160,736	9.3	\$2,797,831	2.2%

f.) **Facility Fees:** SVMC charges Facility Fees in our Medicare provider-based practices. SVMC facility fees have long been established in the chargemaster. One important factor that is related to facility fees is price transparency. Twenty months after the price transparency rules went into effect, SVMC was one of only 2 Vermont hospitals to be fully compliant. SVMC remains committed to meeting regulations in order for consumers to have the information they need to make health care decisions.

SVMC practices also comply with all Medicare requirements, the same as the hospital. This requires Medicare claims to be split into a professional and a facility component. While it is split, this is the same amount that is billed to commercial and Medicaid claims, it is not a higher amount.

Total facility fees in FY 2024 and FY 2025 is approximately \$20.6 million.

g.) **Consumer Affordability:** Two of the four guiding principles SVMC used when developing the FY 2025 budget mentioned at the beginning of this document were:

1. Stay in the guidelines set by the Green Mountain Care Board;
2. Enhance the value of care for our patients (better outcomes at a lower cost)

These principles clearly address the issue of consumer affordability. SVMC stayed within the guidelines set by the GMCB.

Rising costs of healthcare negatively effect consumer affordability. SVMC's commitment to reduce general and administrative fees further supports the commitment to consumer affordability.

In 2023 SVMC earned an “A” rating and garnered the distinction of “most socially responsible” in Vermont by the Lown Institute, a nonpartisan health care think tank. The only annual ranking to fully integrate racial inclusivity, community investment, and pay equity with traditional outcomes measures, the [2023-24 Lown Index for Social Responsibility](#) evaluates more than 3,600 hospitals in the U.S. and uses 53 metrics to create the Index. The Index indicates the health system's dedication and commitment to healthy patients and the surrounding community. SVMC was one of 54 hospitals across the country and the only one in Vermont to earn an "A" grade on equity, value of care, and patient outcomes. This speaks to SVMC's commitment to address health disparities and inequities, as well as investing in the community to stimulate population health.

h.) **Rate Contingency Plan:** The SVMC proposed rate and/or NPR increase is within the guidelines set by the GMCB, therefore, no contingency plan has been developed.

i.) **Lobbying and Marketing Costs:** The only lobbying cost included in the FY 2025 Budget is a small portion of VAHHS dues paid annually. Marketing, advertising and branding expenses included in the SVMC budget are \$300,000. All these services are paid by SVMC. The marketing, advertising and branding expenses in the FY 2025 budget represent a \$126,300 reduction over FY 2024 budget.

j.) **Fundraising:** All fund raising is done by SVMC's sister organization, the SVHC Foundation. General contributions are budgeted at \$300,000 in FY 2025. In addition, the Foundation raises significant funds for major capital equipment and projects such as the soon to be completed Emergency Department expansion and renovation project.

k.) **Investment Income:** Investment returns included in the SVMC FY 2025 Budget total over \$947,000 for investments held at SVMC. A 4.5% return on investments assumption was used for the FY 2025 Budget. Most investments are held at the parent corporation, SVHC.

l.) **Quality Payment Reductions:** Medicare requires hospitals to submit certain quality measures. Hospitals that fail to submit these measures are penalized with a reduction to their inpatient update factors. In reviewing the final 2023 & 2024 and the proposed 2025 impact files for SVMC, there does not indicate any quality measure reductions to the rates.

m.) **Workforce Investments:** Southwestern Vermont Medical Center uses multiple strategies for recruitment and retention to develop the nursing workforce. Following are listed the key activities which lead to increased nurse recruitment:

1. Dedicated Education Units (DEU): Initiated the Dedicated Education Unit (DEU) for medical-surgical nursing units and the women's and children's service. This program receives support from the Vermont State Colleges System (specifically Castleton) for SVMC employed nurses with advanced education who oversee clinical education on site at SVMC. The program uses clinical nurses who have a student work with them for the shift. The program enables precepting from experienced nurses and provides additional faculty resources for the University. Through this program which started in 2000, we have been able to recruit BSN level nurses.
2. Nursing Pipeline: Was one of the first hospitals in Vermont to create a nursing pipeline with funding from the Vermont Health Care Employer Nursing Apprenticeship and Pipeline Grant Program. We currently have 8 enrolled in the 2023-2024 undergraduate program, with 6 in the BSN or MSN program, and have just accepted an additional 8 into the 2024 – 2025 pipeline initiative. All of these individuals are working at SVMC currently and have commitments to continue employment throughout their education and following degree completion. Entry students completed the practical nursing component in June and are sitting for their PN boards. They have all accepted LPN positions at SVMC and will be starting on the ADN component of the program in the fall. The pipeline not only provides new LPNs and RNs, but also enables nurses to advance academically through the BSN or MSN programs. These nurses have committed to remaining with SVMC and will work through the DEU to provide ongoing education for new nursing students.
3. Preceptor Differential for Clinical Nurses: Through Vermont Nurse Preceptor Incentive Grants Program, SVMC was awarded funds to encourage nurses to serve as clinical preceptors. SVMC has traditionally provided a differential of \$2/hour for precepting nursing students and new nurses. The grant enabled us to increase the differential to \$5/hour for capstone students in addition to the DEU students. This funding has resulted in a high capstone student acceptance rate. BSN students are required to complete a 12 week capstone experience. We were able to recruit 7 of the 11 capstone students this year. These students have already had a significant introduction to SVMC and the capstone enables their onboarding to proceed at a faster rate.
4. Accredited Transition to Practice Program: The Transition to Practice Program (PTAP) at SVMC is accredited through the American Nurses Credentialing Center (ANCC). The program was accredited in 2021, making it the first in Vermont to receive such accreditation. The program is based on the metrics of retention and quality on-boarding experiences for

- nurses. All novice nurses at SVMC participate in this full year program which ensures a solid introduction to nursing practice at SVMC.
5. Retention strategies: SVMC has a strong shared governance system which provides nurses at all levels a voice in the system. We provide flexible scheduling and work hours, and we avoid travelers through leadership commitment to direct care. All nurse leaders at SVMC work direct clinical care when needed which strongly impacts nursing engagement.
 6. Mentoring: SVMC uses mentoring for all new nurses and nursing leaders. Mentors are chosen or selected during the first year of employment. This enables novice nurses to have a peer on whom they can call to chat when a day is difficult. For nurse leaders, the mentor shows the leader “how things run at SVMC” which helps leaders gain an understanding of the culture, of our values and of how to get things done.
 7. Recognition strategies: There are numerous recognition strategies that SVMC uses for all employees. Within nursing, the DAISY initiative provides an opportunity to recognize a nurse each month. Patients, family members and other staff members submit DAISY nominations which are redacted and sent out for a vote by all nurses. At present, there are more than 20 nominations in the queue. When the DAISY award is given, the nurse is “surprised” on their unit with a celebration including the President & CEO in addition to other leaders. The CNO bakes cinnamon rolls, and the recipient receives a bouquet of daisies and writes their name on the DAISY banner which remains on the unit/department for the next month. The DAISY awardee has their picture and story posted in the Bennington Banner in addition to the DAISY Foundation International Website. In addition to DAISY, SVMC developed the PETAL program for non-RN caregivers. The PETAL is awarded every other month and provides an opportunity to say thank you to the team members who make patient care exceptional.
 8. Magnet Nursing: Magnet is all about recruiting and retaining exceptional nurses. On an annual basis, SVMC recognizes four Magnet nurses and an advance practice provider in addition to a collaborative colleague. The nurses are awarded with an opportunity to attend the annual Magnet nursing conference. This year they will be sent to New Orleans for the educational conference.
 9. Clinical Advancement Program (CAP): The clinical advancement program is awarded to nurses on an annual basis, who complete the application which includes recognition of their community involvement, education, certification, and activities intended to advance the profession of nursing at SVMC. This program recognized 26 nurses last year, with most achieving Clinical Nurse 5 level. They receive a bonus which is possible through the generous donations of the Kunzelman Funds, who was a hospital benefactor.
 10. Nursing Faculty: In addition to the DEU nursing faculty, SVMC provides flexible scheduling to enable other nursing faculty members to work part time or per diem at SVMC while continuing to teach in the Vermont State Colleges System. There are 4 nurses who continue to work at SVMC while

also employed by VSCS, including Carolyn Stanard Carlos, who recently served at the interim Dean for the College of Nursing. Carolyn is the 2024 recipient of the SVMC Structural Empowerment Magnet Award. When she is not teaching or leading faculty, she provides care for patients on the Medical-Surgical units.

11. Advanced Nursing Education: SVMC provides direct payment to Castleton University in addition to Colby Sawyer College for nurses who choose to return to school for their BSN. This takes the burden off of the nurse for course payment, and through this program in addition to the many other initiatives, SVMC has increased the BSN nurse rate from 34 to 53%. SVMC also provides a strong tuition reimbursement program for nurses and all staff who are in school.

The areas of investment listed above enable SVMC to avoid nurse travelers and to retain a strong and healthy nursing and clinical culture.

n.) **Housing, daycare and other benefits:** Despite financial challenges, the hospital has deemed it essential to continue to invest in our workforce through pay, benefits and programs for their wellbeing. While market trends for medical health insurance costs have skyrocketed over double digits, SVMC has kept the employee premium increases at no more than 10%. SVMC absorbed the additional costs, while not materially altering any plan designs to ensure the maximum coverage allowances for our staff. We provide home network discounts with lower deductibles in our health system along with free care within our employee health department clinic for minor illness such as strep/flu/COVID testing and guidance so staff are not forced to go to a higher cost provider. In addition, the EAP (Employee Assistance Program) program has expanded tremendously over the last couple of years by expanding our relationship with neighboring United Counseling Service to provide emergency counseling as needed as well as invested in training for a peer support group within the employee base. There are a number of leaders and staff trained to be called upon for peer support; team decompression after traumatic patient events; and quicker access to guidance for employees in distress which supplements the traditional EAP plan. This past year SVMC returned to having an Activities Committee and Wellness programs, including planning and supplementing events for staff, meals, hikes, weight loss challenges etc. SVMC runs a daycare program called 'The Learning Tree'. This provides day care openings for children of staff members. This daycare is highly recognized as one of the best in the state of Vermont, named a 5 star program in Vermont.

o.) **Held harmless:** There are several drivers of expense growth that SVMC management feels they should be held harmless.

- a. Transportation costs for patients. Hospitals have little control over who shows up in their emergency departments. It is becoming increasingly more expensive to transport these patients to a more appropriate place of service (if necessary). EMS is often not paid or underpaid for the service so transportation becomes an issue, forcing patients to stay in emergency rooms longer than they need. In order to increase patient flow, hospitals often contract with EMS to transport patients which is expensive and an unreimbursed service.
- b. Costs associated with the transition of health care models. In order to analyze and implement changes in health care payment, hospitals will need to spend money on analysis, legal and financial advice. These costs are above and beyond what it costs to care for the patients and should not have to negatively impact the hospital budget.
- c. Rising property insurance. As more natural disasters are happening in Vermont, property insurance premiums are rising. Hospital's have no control over this phenomenon and should be held harmless from the rising costs.
- d. Rising costs for claim processing. It is becoming more difficult to get paid for the work that the clinicians are doing in the hospital and clinics. Denials from insurance companies are rising due to their practices and added technology. To level the playing field, hospitals need to invest in more people and expensive technology.
- e. Practice acquisition and ramp up costs when private practice primary care providers either close their practice or turn to the hospital for employment. It is proven that productivity of the providers drops when they become employed by the hospital run clinics due to the necessity of learning a new medical record software and all of the added administrative functions hospital providers must do. This ramp-up period is expensive and limits access to primary care.
- f. Legal fees for frivolous lawsuits. Legal fees are growing for hospitals as more people take action in court. Fees associated with claims unrelated to negligence or malpractice, or cases where the hospital is found not guilty of negligence or malpractice, should not harm the hospital budget process.
- g. Increase expense related to the Provider Tax should be excluded from hospitals. As revenue increases to cover costs of direct patient care, hospitals are limited in the amount of investment in direct patient care because of the provider tax.
- h. As the transportation system in Vermont is not adequate for some patients, the cost of boarding patients has increased. It is often difficult

to get patients to the correct place of service, especially for mental health issues. This increases the time patients stay, boarding in emergency rooms, one of the highest cost areas of the hospital.

D. Hospital and Health System Improvement

a) SVMC has exerted effort and incurred expenses to increase access to mental health and substance use disorder treatment services and primary care, including:

- Incurring approximately \$480,000 annually to provide mental health consultation to inpatients and patients in the emergency department through a contract arrangement with the local designated agency, United Counselling Service (UCS). SVMC provides these mental health support service free of charge and does not bill separately.
- SVMC has invested approximately \$435,000 in creating a site for a mental health intensive outpatient program for children and adolescents in partnership with United Counseling Services. A Congressionally Directed Spending HRSA grant of \$250,000 supported a portion of the renovation expense. SVMC renovated a 3,750 square ft facility to the specifications of UCS and has arranged a subsidized lease arrangement in effort towards ensuring sustainability of the IOP program operated by UCS.
- In partnership with the Department of Mental health, SVMC spent \$31,000 on consulting fees to develop a feasibility study for an inpatient mental health unit for adolescents. The state provided a grant for \$25,000 towards the development of the feasibility study.
- In response to the inpatient mental health feasibility study, SVMC has compiled and submitted a CON application to create the mental health unit. The uncompensated SVMC staff time associated with the feasibility study and CON application has been extensive.
- SVMC has incurred expenses to develop an alcohol detoxification program, the magnitude of the expenses is difficult to precisely account. The community health needs assessment indicated that access to substance use disorder treatment, particularly for alcohol use disorder, is particularly limited in SVMC's service. SVMC has developed a comprehensive alcohol use disorder treatment program including inpatient detoxification, peer counselling, and community-based peer support by partnering with Turning Point of Bennington County.
- SVMC operates a 5 bed mental health crisis area as part of its emergency department. The unit provides an intermediary care site while patients wait for inpatient mental health placement or discharge to the community once stabilized. The patients often remain on this unit for longer than 4 days, yet the reimbursement is that of a typical emergency department visit.
- SVMC is pursuing a Family Medicine Residency program with Dartmouth Health to increase the number of primary care providers.
- SVMC is planning the expansion of SVMC Internal Medicine, doubling the number of exam rooms, and changing the name to SVMC Primary Care; the practice will be inclusive of family medicine physicians and internal

medicine physicians; will provide protected time for physicians to give additional oversight and training to inexperienced advanced practice providers.

- SVMC uses locum primary care physicians and advanced practice providers when no other reasonable option exists while recruiting permanent replacements.
- SVMC is participating in the Blueprint expansion.

SVMC continues to invest in programs to increase access to mental health care and substance use disorder treatment across the continuum of care and well expanding access to primary care services to the communities we serve.

b) Despite fragmentation in Vermont's healthcare delivery system, SVMC works tirelessly and closely with healthcare partners across the healthcare continuum to ensure effective patient hand-offs and delivery of coordinated care. Below are a few examples of SVMC's work with other providers in our community.

- SVMC has an agreement with the local designated agency, United Counselling Service (UCS), to round and consult on inpatients and those in the Emergency Department (ED) experiencing mental health challenges. In particular, UCS assists with treatment planning and mental health care delivery, identifying patients in need of transfer for inpatient psychiatric care, and ensuring outpatient resources are arranged before discharge from SVMC. SVMC does not charge separately for this mental health consult as it is considered part of the quality care delivered.
- SVMC has an arrangement with the local Federally Qualified Health Center (FQHC), Battenkill Valley Health Center (BVHC), to care for their patients needing diagnostic testing, imaging studies, surgical services, or hospitalization. Caregivers at the two organizations communicate and collaborate to ensure continuity of care for patients of BVHC.
- Physicians and advanced practice providers at BVHC are on SVMC's medical staff and are informed of quality improvement initiatives such as reducing readmissions and decreasing select patient's unusually high utilization of emergency department services.
- Staff, physicians, and advanced practice providers from SVMC, UCS, and Vermont's Blueprint for Health (Blueprint) serve on a weekly committee that identifies and assists patients who lack critical outpatient resources and tend to seek routine care in the ED.
- SVMC's billing team works with the Bennington Free Clinic to assist patients needing imaging, lab, and other services but lack insurance or an ability to pay for healthcare.
- Blueprint staff are members of the care team in all SVMC primary care practices and ensure that patients receive personalized support and connection to community and state resources. Blueprint staff include diabetes educators, registered dietitians, social work, and mental health support staff. SVMC does not charge for services rendered by BluePrint staff regardless of whether the support is delivered while patients are

- inpatients in preparation of safe discharge or conducted in SVMC's primary care practices.
- SVMC has an agreement with Turning Point of Bennington to present to the ED or inpatient unit within 30 minutes of identification of a patient experiencing substance use disorder and in need of peer coaching, outpatient resources or rehabilitation.
 - SVMC's health resource managers (case management) and social services provide care coordination with all related state agencies and entities in the community. On behalf of patients, SVMC's care support teams communicate with and refer to home health liaisons, community-based case managers, pharmacies, etc. as necessary for safe discharge. The care support teams follow-up for cases of high risk or high concern.
 - SVMC's award winning Transitional Care Nursing team connects high risk and high need patients with community resources in addition to instructing patients on medication and chronic condition management. Transitional Care Nurses meet with patients in their homes, assist with implementation of the care plan, and facilitate patients getting to outpatient appointments. SVMC does not charge for Transitional Care Nursing activities.
 - Complex care specialists collaborate with independent primary care providers and community resources to engage patients/families with complex needs and multiple care providers to reduce inpatient length of stay, improve discharge placement or home adequacy and increase patient access to financial supports.
 - SVMC's Pediatric Community Care Team works with local and state entities to connect children and families to resources, particularly for children with behavioral, financial, or medical challenges that require an advocate and communication with schools.

Below are specific barriers hampering SVMC's ability to deliver smooth transitions of care:

- Inadequate access to primary care
- Limited skilled nursing facility (SNF) beds
- Restrictions on OneCare waivers due to star ratings of regional SNFs
- Transportation challenges (medical and non-medical)
- No reliable, local access for patients to durable medical equipment (DME)
- Delays and complications with prior authorization that disrupt care
- Staffing and availability of community resources
- Limited availability of outpatient services
- Challenges with patient transportation to the hospital and to other institutions.

Despite the efforts of SVMC and the region's providers, the healthcare system in Vermont does not operate as a 'system' and many obstacles hinder the creation of a more efficacious system – most of the healthcare delivery organizations are independently regulated and governed, most are on different electronic record

platforms preventing timely exchange of comprehensive longitudinal patient information, and the financial incentives across the system are not consistent nor incentivizing alignment on behalf of Vermonters. Vermont is not unique relative to other states. Establishing a more coordinated system by addressing regulatory/governance, information sharing, and financial alignment is imperative to mitigating escalating healthcare costs.

- c) SVMC was not asked to submit a performance improvement plan.
- d) As previously mentioned, becoming a member of the DH system is a critical piece of SVMC's strategy. This will help SVMC become a regional referral hospital. Shared services are currently allowing a reduction in administrative staff as well as savings in pharmacy, supply chain and many contracts for purchased services. Included in the FY 2025 budget is approximately \$900,000 in shared service expenses related to pharmacy and supply chain. The amount of additional revenue and reduced expense is more than double this cost. The method of allocation is very collaborative, and each member hospital is given the opportunity to review the costs to ensure that they are appropriate for the level of service provided. Not included in any of the calculations is the clinical support (as previously described in the narrative) that DH is providing to SVMC. This allows additional services to be done at SVMC rather than sending the patients to an academic medical center or to an out of state facility.

F. Other

- a) **Zero based budget:** SVMC uses some of the same principles when developing the budget as are used in zero based budgeting. Managers from each department were required to meet with finance and review each line of their budget to justify and provide details of every expense in an effort to reduce costs where ever possible. The detailed review allowed finance to ask questions and challenge budget requests as well as identify issues or opportunities that might affect other departments.
- b) **Patient Financial Assistance:** SVMC does not contract with a third party to collect self-pay patient payments, collection is handled in-house by SVMC based on collection policy. If after 3 statements and 120 days the patient has not paid or contacted the billing office regarding a payment plan or financial assistance, they are deemed uncollectable and sent to a bad debt agency.

SVMC has two financial counselors available to help patients apply for financial assistance and insurance programs through the state. Information regarding SVMC financial assistance program is available throughout the hospital and is also available on our website. All hospital departments and provider offices are aware of the program and are encouraged to refer patients they believe need financial

help to our counselors. When SVMC billing office receives calls from patients about their bills, they are able to inform patients about the financial assistance program and screen them for the program over the phone.

SVMC provides estimates to all self-pay and many insured patients for their services at SVMC. SVMC staff providing estimates are able to inform patients of our financial assistance program and refer to financial counselor for screening. For uninsured patients with an account balance over \$5,000, SVMC billing office attempts to call the patients prior to sending the initial bill to screen for financial assistance. Prior to sending a patient to collections, SVMC will check Medicaid eligibility and if a patient has been granted Medicaid eligibility after prior services were rendered, these accounts are referred to financial counselors for review.

All SVMC statements have information on financial assistance and how to apply including the website to find the applications and phone number to call. In addition, at least 30 days before referring balances to an outside collection agency a copy of the SVMC Plain language Summary is included with the patient's statement.

c) **Boarding:** Boarding episodes for patients in the emergency department was retrieved from patient accounting records detail for FY21-23 and FY24 through March. The criteria used was all emergency department patients with a length of stay over 24 hours without an admission disposition for both mental health and non-mental health diagnoses.

SVMC does not currently have a method for tracking long stay in-patients awaiting placement but committed to establishing a method in FY 2025.

Closing Statement

As shown through the responses to the many questions included in this budget narrative, SVMC understands the responsibility of providing high quality healthcare to the service area at the lowest possible cost. The many accolades that SVMC has received over the years are not by accident, it is deliberate efforts by each and every employee. In addition to the recognition SVMC has received, achieving a one-year financial turn-around to a positive operating margin, zero nurse travelers, a reduction in executive management expense, increase in access to primary care and a commitment to community benefit are just a few operating results of these efforts. Getting a budget back to a 3% operating margin is imperative in order to reinvest in employees, equipment and the facilities which will allow SVMC to continue to provide a high level of care. Management is striving to achieve this goal and is confident that with the shared services of the internationally known academic medical center, Dartmouth Health, it is attainable. SVMC will become a regional referral hospital, keeping more services close to home for more patients. Since SVMC is already one of the lowest cost providers, this will reduce the burden on the Vermont health care system, and save Vermont residents from rising health care premium costs.