

July 26, 2021

Ms. Lori Perry
Green Mountain Care Board
144 State Street
Montpelier, VT 05602

Dear Ms. Perry,

Below is Southwestern Vermont Medical Center's (hereafter "SVMC") response to the questions included in your July 14, 2021 email.

GMCB Question

1) *Is your projection still valid?*

Management Response

SVMC's submitted projections were prepared based upon April results and what trends management saw through May 15th or so. Currently, the team is completing the June financial reports and submitted them to the GMCB. This week management is looking at some of the trends and the results are different from the SVMC's projections prepared for the budget submission. The trends are both positive and negative. Below I will discuss some of the material differences.

a) Volumes

Since our projections were prepared, volumes in several areas have increased back to pre-pandemic levels. The emergency room and SVMC Express Care volumes have increased to close to pre-pandemic levels. In the projection submitted, management projected an increase, however, not to the levels we are seeing through July 15th.

Surgical and Endoscopy volumes are slightly higher than projected.

Lab services, when compared to our projection, have seen mixed results. COVID-19 testing has dropped greater than anticipated but outpatient testing from the emergency room, SVMC Express Care and Outpatient referral testing has increased.

The Cancer Center volumes are under our projections. This is high revenue and high cost service.

The above are just a few of the volume variances from projections.

b) Payer Mix

Since our budget preparation and the completion of the projections, SVMC has seen a significant shift in payer mix. The shift has been to more Medicare and less commercial cases. As we all know Medicare reimburses SVMC significantly less than commercial payers. The shift can have over \$900,000 impact if the trend continues through September.

c) OneCare Vermont

Recently, OneCare Vermont provided information to SVMC that related to the CY 2020 settlement on shared savings, mainly related to Medicaid. These amounts were not considered in our projection. According to OneCare Vermont the settlement will occur prior to September 30, 2021.

d) Other Operating Revenues

Other operating revenues may exceed our projections due to a new COVID-19 Resource Center that SVMC is considering with the State. The Resource Center revenues will most likely only cover a small portion of the costs.

e) Operating Expenses

The operating expenses included in the projections may have been understated. Below will outline some of the items which are leading SVMC management to that conclusion.

Salaries and Wages – workforce needs are several fold. The increased volumes management have adjusted staffing levels. Additional funds needed to be allocated for workforce retention prior to year-end as well as increased funds for recruitment of staff for vacant positions. Additionally, the new COVID-19 Resources Center was not in the plan. These are added costs that were not considered in the projection

Employee Benefits – as with the Hospital volumes increasing the Hospital is seeing an increase of the self-insured claim volumes above the projected claims included in the projection. In addition, as variances occur in salaries and wages, regulatory benefits such as FICA and others will increase.

Supplies – with additional volumes mentioned above, this classification of expenses will increase.

The projection did not include a COVID-19 Resources Center. Estimates are being developed as of this writing. The costs of set-up, staffing and operations between now and year-end between \$175,000 and \$200,000 negative impact after revenues.

Summary in Projections

SVMC's projection resulted in nearly a \$5 million gain, including over \$2 million of Provider Relief Funds recognized in FY 2021. Management expects SVMC to exceed its projection based upon the above items. Management expects to exceed its projection between \$500,000 and \$750,000 if trends and items discussed above continue and are realized.

The operating statement projection is anticipated to exceed the submitted amount, however, examining the cash flow requirements for the remainder of the fiscal year there are several unexpected capital needs and other need that may create a negative cash flow, thus reducing the liquidity position of the Hospital below projected amounts.

GMCB Question

2) *Does the Hospital's budget request include support or a need to support any other entities outside of the physical hospital? An example includes a higher operating margin to transfer surplus to a subsidiary.*

Management Response

SVMC's budget request does not include support or a need to support any other entities or transfer surplus to a subsidiary.

Over the past years, SVMC's budgeted cash flow has demonstrated negative operating cash flows, even though the operating margins have been positive. The negative cash flows were driven by the organizations capital needs and the required cash to fund the defined benefit pension plan.

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Management has committed to terminate the defined benefit pension plan. This termination eliminates SVMC's cash flow requirement by over \$5 million annually and secures the retirement benefits as well as provides some flexibility to plan participants.

In the FY 2022 budget, SVMC is planning to receive support from of over \$7 million from SVHC's Foundation as part of the Modernization and Emergency Room expansion project. In FY 2022, this is only a portion of the Foundations' commitment to the project.

In late December, Southwestern Vermont Health Care (hereafter "SVHC") the parent organization, funded the purchase of Southern Vermont College campus. Currently, the new not for profit subsidiary of the parent SVHC, SVHC Realty is preparing a strategic plan for uses. All operating expenses to-date have been paid for out of funds raised in the community by SVHC's Foundation. Hospital funds have not been utilized in the purchase or operating expenses related to the property.

I hope these responses meet the intent of the questions. If you should have any questions please do not hesitate to call me at 802.447.5011.

Sincerely,



Stephen D. Majetich
VP Finance/CFO

*Cc: Tom Dee, CEO
Jim Roy, Controller*