Southwestern Vermont Medical Center
Operating Budget
FY 2024

Strategic Overview

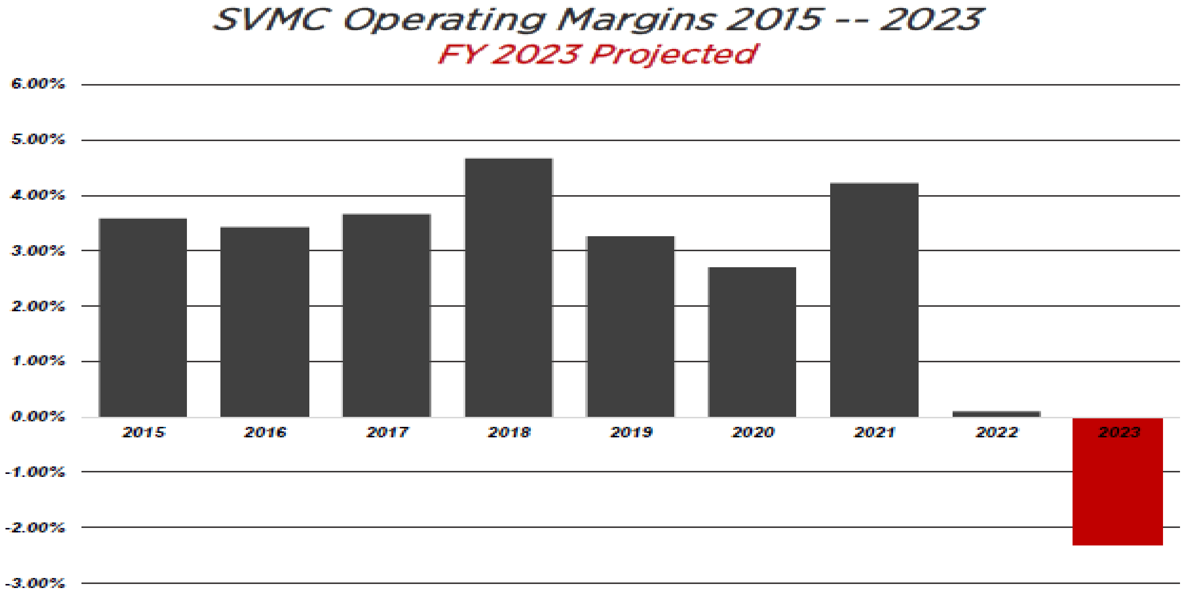
Southwestern Vermont Medical Center (hereafter "SVMC" or "Hospital") continues to transform its organization in order to position itself for an ever-changing health care environment. The post pandemic era has highlighted the need to rapidly accelerate the rate of organizational change to deal with very challenging industry wide trends. SVMC has been readying itself through institutional efforts to:

- improve operating performance;
- create strategic partnerships
- enhance the value of care for our patients (better outcomes at a lower cost)
- facilitate collaboration with other community organizations
- broaden community wide benefits through increased access to care

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

1. Received notification of being named a CMS 5-Star hospital for 2023.
2. Currently a five-time Magnet award designated institution for nursing excellence.
3. 2023 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.

SVMC's historical financial performance, which has led to operational stability, is now however being significantly impacted by the results of the pandemic and other related conditions. The below chart depicts this overall trend.



The current industry wide environment presents existential challenges if SVMC does not deal with those issues in both a strategic and thoughtful manner. The centerpiece of SVMC's long term strategy is to create an integration partnership with the Dartmouth Health System (hereafter "DH") with the plan to become a regional referral center for the southern Vermont region. With the partnership of DH, SVMC will expand its scope of services offered locally that allows us to treat more complex patients with the goal to reduce the need for Vermonters to migrate out of state to facilities in New York and Massachusetts. The opportunities that SVMC will pursue through the integration and affiliation with Dartmouth Health are the following:

- Clinical enhancements within key service lines such as oncology, cardiovascular services and surgical services;

- Strengthen and expand primary care (i.e. commencement of family medicine training program) within our catchment area;

- Create operating efficiencies to enhance sustainability;
    - 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, cost of borrowing, etc.),
    - expand physician practice support services,
    - continue to transition to a population health model reducing reliance on fee for service.

Fiscal year 2024 will be a transition period as SVMC continues to deal with the significant challenges of workforce shortages, medical inflationary pressures, provider recruitment, federal reimbursement reductions (i.e. 340B), and capital costs for construction, insurance denials and other industry wide forces. Institutional risks in our 2024 budget will greatly outweigh the opportunities during the next 12 months as we position ourselves for the future.

I – FY 2024 Budget – Summary

SVMC has prepared this budget for fiscal year (hereafter "FY") 2024 over the past several months and on June 23rd the Board of Trustees approved this budget. The budget has approximately a 1.0% operating margin which is significantly below the target of 3.0% management uses as its guideline. The 3.0% operating margin is the benchmark management has realized consistently prior to the pandemic and many in the industry utilize the 3% benchmark as the floor that enables an entity to reinvest in itself. SVMC's Board of Trustee's and Management believe this budget is achievable. However, there are challenges and significant risks in the plan.

Below is a table comparing the FY 2022 actual results, FY 2023 projected based upon May 2023 results and the proposed FY 2024 budget.

	FY 2022 Actual *(As reported to GMCB)*	***FY 2023 Projected***	***FY 2024 Budget***
Net patient service revenues	$186,729,146	$189,694,558	$203,459,707
Other operating revenues	8,708,465	10,344,245	10,191,106
Total operating revenues	195,437,613	*200,038,803*	*213,650,813*
Operating expenses	195,777,045	*204,963,048*	*211,591,488*
Operating gain(loss)	***(339,432)***	***(4,924,245)***	***2,059,325***
Non-operating activities-net	8,005,419	1,381,828	846,833
Excess revenues over expenses before loss on pension settlement	***$7,665,986***	***($3,542,417)***	***$2,906,158***

The FY 2024 budget has 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 will complete its integration agreement with DH, on July 1, 2023. Working with DH, management has incorporated significant savings in especially supply costs in the budget. Integration activities with the clinical staff will enable the Hospital to improve access and reduce out migration in FY 2024 and into the future.

3. *Financial Recovery* – Continuing the work around the Financial Recovery plan which currently will have the Hospital back to a break-even run rate for the final quarter of FY 2023, a 1% operating margin in FY 2024 with the goal of achieving a 3% operating margin, hereafter.

The FY 2024 budget increases Net Patient Service Revenues (hereafter "NPSR") by $16,730,561 or 8.96% when comparing to the FY 2022 actual. This is slightly higher than the recommended 8.60% by the Green Mountain Care Board (hereafter "GMCB" or "the Board"). Included in the FY 2024 budget is a 9.5% increase in charges on approximately 70% of the charge volume at the Hospital. This results in an overall net charge increase of approximately 7%.

Operating expenses are budgeted at $211,591,488 an increase of $15,814,443 or a two year increase of 8.08%. A significant portion of the increase is related to labor and benefit costs for the employees and providers. Approximately $13 million of the $15.8 million is related to labor and benefit costs. Included in the budget are significant cost reductions related to the FY 2023 Hospital's Financial Recovery plan, integration as well as others.

II—Questions

a. Considerations in FY 2024 Budget

One of the cornerstones of the FY 2024 budget is improving access to primary care in SVMC's service area. Working with our Medical Group, which is included in the Hospitals operations, the goal is to have all primary care practices accepting new patients and significantly reducing the wait time to get an appointment with a primary care provider. The goal is the same for the specialty providers. The FY 2023 to FY 2024 increase in visits in the Medical Groups visits is approximately 17%. These goals are conditional on having the providers in place for FY 2024 and as of this date the providers are in place to achieve the goal. The Hospital is always actively recruiting primary care providers and specialists, where needed

The increase in visits and availability will be achieved by reorganizing the scheduling matrix in the group and the reorganization of the nonclinical paperwork away from the providers to clerical staff. The added revenues both professional and for Hospital services are over $5.7 million on an annual basis. This initiative was kicked off in April 2023 with an anticipated 100% completed implementation by October 1, 2023.

Oncology services in FY 2024 SVMC will have employed and contracted with three (3) full-time providers for the first time since before the pandemic. This will allow patients in our service area to receive treatment in SVMC's Cancer Center without traveling to other treatment centers. It is worth noting that many patients from our region have treatment plans developed at larger cancer centers and they are coordinated and administered at SVMC's Cancer Center. Receiving treatment locally is desirable for most patients and usually results in lower cost to the healthcare system. In FY 2024 SVMC is budgeting approximately $1.8 million of added Oncology and Radiation Therapy revenues.

b. Factors in the FY 2024 Budget

The following will follow the GMCB guidance and in the order in section II.

i. Labor expenses

SVMC's labor related expenses which include salaries and wages, employee benefit costs and physician fees, salaries, and fringes amounts to over $123.4 million in the FY 2024 budget. In FY 2022 the actual was $110.3 million. This is an increase of over $13 million or approximately 11.8% for two years or approximately 5.9% per year.

Full Time equivalents (hereafter "FTE's") are estimated to decrease to 811 in the FY 2024 budget. In FY 2022 the actual FTEs were 820.

Included in the FY 2024 budget is a wage increase of 6%. The increase will be divided between an increase in pay of 5% for most employees and approximately 1% will be used for a discretionary spending strategy to address market conditions, if necessary.

The proposed increase is consistent with the inflation rate which was at 6.8% in January and in June is still over 4%, and the Bureau of Labor Statistics Employment Cost Index which is currently at 4.8%. SVMC budgeted for a 5% wage adjustment with an additional 1% to manage unique market situations, if any arise. SVMC also subscribes to the Economic Research Institute Salary Assessment service, which shows a continued upward trend in market values for positions reviewed. They released a White Paper in April 2023 on National Compensation Forecast, recommending that they expect higher compensation growth in 2023 and provided a forecast that the economy continues to trend toward higher compensation with actual increases of at least 4.51%.

Healthcare has been facing immense staffing challenges which has required a proactive approach to compensation. There is competition in our local labor market for entry level talent which has required SVMC to increase our minimum pay. In order to address these issues to retain staff, SVMC needs to have an adequate wage adjustment. In addition, the regional market competition for professional clinical staff continues to grow and our ability recruit and keep staff to maintain staffing for patient safety is reliant on our ability to provide competitive wages to our staff that are within current market levels.

As mentioned above, over the past two years SVMC has raised its minimum wage twice. This increase has gone from under $13.00 per hour to $17.00 per hour to allow the Hospital to compete with local businesses, especially entry level positions.

Employee benefits are estimated to increase nearly 21% over the two-year period. In FY 2022 and FY 2023 SVMC saw many “high dollar” claims. SVMC is self-insured. The actuary SVMC’s utilizes does not believe the level of “high dollar” claims will be at the 2022 and 2023 levels, which is demonstrated in the increase to the projected being nearly 4% in the budget when compared to FY 2023.

Physician costs in FY 2024 are budgeted at $38.6 million up from $35.2 million. Increasing access and throughput in the Medical Group is a significant driver in the 9.6% two-year increase in the Physician costs or approximately 4.8% on an annual basis.

ii. Utilization

There are several ways to analyze utilization. The review below will address significant changes included in the budget.

<u>Inpatient utilization</u>

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 decline as the table demonstrates.

	Admissions and Observation Patients				
	Actual FY 2021	***Actual FY 2022***	***Budget FY 2023***	***Projected FY 2023***	***Budget FY 2024***
Admissions					
Medical/Surgical	2,130	2,281	2,299	2,126	2,126
ICU	412	421	415	353	353
Pediatrics	20	78	50	24	24
Maternity	432	368	403	329	329
Total Medical/Surgical	*2,994*	*3,148*	*3,167*	*2,832*	*2,832*
Observation patients	*535*	*408*	*513*	*636*	*636*
Total patients	***3,529***	***3,556***	***3,680***	***3,468***	***3,468***

Management has several initiatives to reduce inpatient utilization. First, discussed earlier, by improving access in the Medical Group the providers will be able to see more patients and provide care to prevent costly inpatient stays. Another program that has received national recognition is the transitional care nurse program which assists patient when they are home after a hospital stay and works with the patients and local services to prevent a readmission or some other healthcare needs. Finally, management is working with members of the Hospital Inpatient Physician Group to assure that all admissions are “clinically necessary” and that there is no other avenue to treat the patient. This initiative is 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.

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 will improve the health status of our patients and prevent costly services and inpatient stays. Additionally, management and the Group believe that improving access will reduce the out migration of patients to Massachusetts and New York which are more costly to Vermonters. The Medical Group's professional fee revenues represent about 13% of the Hospitals revenue base. The Medical Group's plan is to increasing access by 17% in FY 2024.

Outpatient – Hospital Services

The remaining revenues are defined as outpatient. Outpatient revenues combined with the Medical Group represents over 81% of SVMC's NPSR. The areas where utilization will increase in the outpatient area is projected to be in Cancer services and in the laboratory, radiology and endoscopy services as a result of greater access in the Medical Group.

A discussion on outpatient hospital services would not be complete without discussing emergency room visits. Emergency room visits are projected to be close to FY 2022's and FY 2023's projected. SVMC's emergency room services nearly 23,000 visits a year. If SVMC is successful in improving access emergency room visits may decline, however management has not included the possible decline in the FY 2024 budget since the improved access and the results will take time to have an impact in our community.

iii. Pharmaceutical expenses

Drug costs are budgeted to increase by $985,738 or 6.4% in the FY 2024 budget over projected actual FY 2023. The 2024 pharmacy market outlook by Vizient SVMC's group purchasing organization projected an overall increase of approximately 4% and other benchmarks are higher. The budget assumes continued drug cost savings in FY 2024 because of 340B program with more drugs being bought at significantly lower prices under 340B program. The current Financial Recovery plan includes and have achieved savings of over $800,000 from purchasing biosimilar and unbranded drugs that replace name brand drugs in collaboration with the medical staff. In addition, nearly $100,000 savings from alignment with the DH formulary alignment is included. The FY 2024 budget includes increases in volumes in the Oncology services which is a service that both a high level of pharmaceuticals and expensive pharmaceuticals are utilized.

iv. Cost inflation

Cost inflation included in the budget was between 4% to 5% depending on the commodity. Included are identified savings of nearly $1 million related to the integration of SVMC into the DH System. These savings we would identify as follows. First, SVMC may be able to access additional savings related to pricing once SVMC joins the DH system. Second is through process improvement and consolidation there should be more savings. It is the goal of SVMC management between July 1 to October 1 that these specific savings are identified and implemented. In addition, the current Financial Recovery plan has identified over $400,000 in current savings and that these savings will continue into FY 2024.

v. Commercial price changes

The proposed charge increase in the FY 2024 budget is a 9.5% increase on approximately 70% of the items on the charge master. The remaining charges will not be increased by this amount since the reimbursement for these items does not depend on the charge increase. As an example of this, in the Medical Group nearly all the charges are above the fee schedule payments which SVMC receives. To increase them would not produce additional revenues and create a greater gap between charges and cash collected or in other words increase the contractual allowances.

The 9.5% increase on the charges increased will realize $7.335 million which represents approximately 3.87% of the total FY 2023 projected NPSR.

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

Rate changes	***Amount***	***Percent of FY 2023 NPSR***
Net realization of the charge increase—commercial payers	$7,335,000	3.87%
Medicare proposed rate increase	1,446,000	0.76%
Medicaid proposed rate increase	139,000	0.07%
Performance improvement initiatives—mainly governmental payers	800,000	0.42%
Elimination of Medicare GME payments	(475,000)	(0.25%)
Subtotal	*9,245,000*	*4.87%*
Net change in bad debt and charity care	(634,000)	(0.33%)
Net changes in rate	***$8,611,000***	***4.54%***

FY 2023 NPSR is estimated at approximately $190 million and the $8.6 change in rate per the table represents an overall 4.54% increase over FY 2023 projected NPSR.

vi. Financial indicators

There are many financial indicators which hospitals are measured. To follow the budget guidance and instructions SVMC will discuss just a few key indicators for SVMC and compare them to industry averages.

Days cash on hand

This measurement SVMC reports at the end of FY 2024 will have 24 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 2024 SVMC and the parent organization will have nearly 190 days cash on hand assuming a 4% return on assets in FY 2024.

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 2024 is greater than 6 times. Again, this ratio demonstrates the ability for the Hospital to borrow additional funds.

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 17.3 years at the end of FY 2024. That result is after a $31 million project will be completed and brought on-line. Prior to that project coming on-line the average age of the plan was nearly 20 years. Healthcare analysts recommend between 10 and 13 years is a good guide.

Operating margin

As mentioned earlier SVMC's goal is to achieve a 3% operating margin, annually. The operating margin for FY 2023 will be negative. The FY 2024 budget is a 1% 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 and slightly improve it 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 and over 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 invest in the physical plant, technology and other needs to bring the average age of plant more in line with recommended levels.

A significant point of interest in FY 2022 is that SVMC terminated its Defined Benefit Pension Plan which secured benefits for all vested employees. This action eliminated annual funding requirements and eliminated over $750,000 of administrative costs annually. The elimination of the need for further cash flows will allow SVMC to use those funds to reinvest in the items mentioned above.

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.

vii. Known pricing changes for Medicare and Medicaid

Included in the FY 2024 budget SVMC budgeted a 2.8% increase for Medicare for both inpatients and outpatients. This reflects a projected FY 2024 hospital market basket percentage increase of 3.0%, reduced by a 0.2 percentage point productivity adjustment. This 2.8% as issued is related to Inpatients only. SVMC used this amount for the outpatient Medicare payments since when SVMC’s budget was completed the outpatient guidance effective January 1, 2024, have not been issued.

SVMC budgeted a 1% increase for Medicaid rates. As for the preparation of the SVMC budget the State of Vermont proposed FY 2024 budget does not have this increase included. The risk of not receiving the 1% in the budget is approximately $140,000.

viii. Uncompensated care

SVMC in the FY 2024 budget uncompensated care is budgeted close to the FY 2023 budget and slightly higher than the projected amounts. The FY 2024 budget compared to FY 2022 there is an increase mainly due to increase delays in payments SVMC is seeing. 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 will affect SVMC and its patients, so management has not provided additional dollars or reduced dollars. This may be a risk or an opportunity in how management prepared its budget depending on the “unwinding effect on SVMC. The final consideration is the charge increase which SVMC is budgeting in FY 2024 which increases this amount.

Uncompensated care in FY 2022 was over $6.9 million. FY 2022 was the lowest level in recent years. Uncompensated in FY 2020 was $9 million.

c. Risks and Opportunities in the FY 2024 Budget

Below will highlight significant assumptions, changes to operations, and possible opportunities and risks.

- Continued participation in the 340B Drug Program which benefits the Hospital by over $5 million, annually. As a sole community hospital and a rural referral center SVMC's disproportionate share percentage (hereafter 'DSH") needs to be 8%. In FY 2023, year to date, the percentage is slightly below 8%. If as of the measurement date of September 30, 2023, if the percentage is under 8% SVMC will lose the 340B benefit as of April 1, 2024.

- Greater throughput through improving access, panel sizes and revising processes in the offices Medical Group budgeted will produce increased professional revenue in the Medical Group by approximately $3.5 million on an annual basis. In addition, the additional access, throughput and panel size will generate additional Hospital outpatient revenues of approximately $2.2 million on an annual basis.

  This volume management is focused on improving access, reversing out migration of patients to New York and Massachusetts. It is well documented that this will reduce the cost of care to Vermonters since many of the services SVMC offers are less costly to the patients than in neighboring states. Additionally, patients who receive care closer to home, in most cases according to the literature, the outcomes are generally more positive.

  If these volumes are not achieved management will need to evaluate services, level of services as well as others.

  Oncology Services are budgeted to have a full-time physician provider, full-time locum physician provider and an associate provider. This is the first time in years that the Oncology service has had provider staffing at this level. The anticipated volumes from the Oncology services will also drive additional Radiation Therapy volume in the Cancer Center.

  As mentioned above, many patients in our service area seek services in neighboring states. Management has included nearly $1.8 million in additional revenues related to these services in the FY 2024 budget.

- Inflation in the budget is between 3 and 5% depending on expense categories, which may create a risk. Each 1% for non-salary expenses is approximately $700,000. There is included in the base, FY 2023 significant price increases which are already in projected FY 2023, between 5 to 7%.

- The budget assumes all Performance Improvement Initiatives in the current Financial Recovery plan are carried forward and achieved in the FY 2024 budget, where applicable.

- Assumptions used related increases in payment rates for Medicare and Medicaid that have not been confirmed or approved. In addition, management has not provided additional dollars in the budget related to the planned "unwinding" Medicaid coverage.

The above are specific opportunities and risks. The Healthcare industry today has many risks. The labor market is a challenge, cyber-attacks, funding of government programs, cost of technology, violence in the healthcare environment as well as others provide challenges never seen before.

d. Corporate Structure

Attachment 1A will provide the current organizational chart and Attachment 1B will show the organizational chart after the integration with DH effective July 1. See attachments A1 and A2.

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e. Referral and Appointments

Referral and visit lags time percentages for the first two weeks of May 2023 are in the tables on the following page:

Primary Care -

Office	Referral Appointment Lag* % of apts scheduled within 3 days of	New Patient Visit lag** Visit within 2 weeks	Visit within 1 month	Visit within 3 months	Visit within 6 months
SVMC Northshire Medical	11%	8%	23%	62%	5%
SVMC Deerfield Valley	13%	N/A	N/A	N/A	N/A
SVMC Pownal Campus	19%	6%	2%	14%	64%
SVMC Internal Medicine	21%	N/A	N/A	N/A	N/A
SVMC Pediatrics	25%	33%	0%	44%	17%
SVMC Northshire Pediatrics	17%	29%	0%	0%	71%

* Note: The appointment lag data includes all appointments scheduled during that time, including both urgent and routine visits. It is important to note that Primary Care patients often do not need a routine appointment within 3 days.

** N/A indicates office is not currently scheduling new patients.

Specialty Practices -

Specialty	Referral lag % of apts scheduled within 3 days of	Visit lag Visit within 2 weeks	Visit within 1 month	Visit within 3 months	Visit within 6 months
Cardiology	85%	54%	38%	8%	0%
Dermatology	100%	14%	5%	45%	36%
Endocrinology	33%	0%	0%	100%	0%
Gastroenterology	45%	5%	0%	14%	82%
General Surgery	86%	81%	11%	8%	0%
Infectious Disease	80%	20%	40%	40%	0%
OB/GYN	83%	29%	25%	17%	13%
Orthopedics	86%	73%	23%	4%	0%
Pulmonology	64%	9%	5%	86%	0%
Urology	100%	22%	4%	74%	0%

Top Five Imaging Procedures -

Procedure	Referral Lag % of apts scheduled within 3 days of	Procedure lag Visit within 2 weeks	Visit within 1 month	Visit within 3 months	Visit within 6 months
MG Mammo Screen Bilat w/Tomo	13%	0%	13%	62%	25%
CT Head w/o IV contrast	60%	60%	40%	-	-
XR Dexa Scan hip/pelvis/spine	0%	6%	-	74%	20%
CT Abd Pelvis w/IV contrast`	67%	50%	16%	34%	-
US OB re-eval for abnormality	9%	66%	34%	-	-

Improving access in the practices is a key Performance Improvement Initiative in the current Financial Recovery Plan. Revising processes in the Medical Group should allow providers to increase panel sizes and throughput should improve referral and visit lag times in FY 2024.

f. Capital Expenditures

The routine capital expenses in FY 2024 will be $7 million. A significant portion of the $7 million will be related to improving the Hospital's IT infrastructure.

Currently, SVMC is in the midst of a two-year Modernization and Emergency Room Project. In FY 2024 there is expected construction costs of approximately $10 million for the over $30 million project. The remaining funds will come from mainly donor restricted funds.

In FY 2024, SVMC is considering filing for several certificates of need applications with the GMCB. Management is evaluating a $20 million project for the SVMC Cancer Center. The second significant project is a 12-bed inpatient Adolescent Psychiatric unit. SVMC and the Vermont Department of Mental Health have been working on the possibility of this unit for months. Final determination to move forward is being finalized.

g. Planned Expenditures related to cyber security

SVMC has included direct costs of over $1.2 million for cyber security in the FY 2024 budget. These costs include expenses that cover the following:

- Cyber Security Policy - Coverage and low-level cyber support.
- Senior & Security Network Engineers.
- Firewall requirements and maintenance.
- Cyber Security Risk Assessments.
- Cyber Penetration Testing.
- Healthcare Resiliency Membership, Education, & Alerts.
- Email filtering, Whitelisting and other expenses.

In addition to the above expenses there are significant indirect expenses related to:

- Weekly Privacy & Security review meeting.
- Software application, hardware, Bio Medical device and other cyber security reviews.
- Organizational staff time for ongoing education and training related to cyber security.
- System down time for software patch management.

In addition, the Board of Trustees, especially the Audit and Compliance Committee, which one of its members has an IT related company who is well versed in cyber security, have taken an active role in the cyber security efforts at SVMC.

h. Inability to transfer patients

Patient days for patients awaiting placement to a nursing home or other more appropriate setting have been tracked on a daily basis. The table below shows the number of patient days from FY 2020 to Budget FY 2024. The costs are estimated using direct costs only and the cost to charge ratio for each period.

	FY 2020	***FY 2021***	***FY 2022***	***FY 2023***	***FY 2024 Budget***
Post-Acute Care days for patients awaiting placement	1,270	1,580	1,862	1,690	1,690
Estimated Costs of patients awaiting placement	$ 642,811	$ 798,604	$ 1,013,245	$ 952,531	$ 1,126,729

Boarding episodes for patients in the emergency department data was retrieved from patient accounting records detail for FY 2022 and FY 2023 through March. The criteria used was all emergency department patients with over a 12 hour stay. This population was broken down by patients with and without mental health diagnosis.

i. Reimbursements above costs for Pharmaceuticals

SVMC at this time does not have the ability to provide the net reimbursements above cost for pharmaceuticals in the FY 2022 actuals, FY 2023 projections, and in estimated proposed budget. Currently, the Hospital does not have a detailed cost accounting system to provide this information. In the current environment it would take significant resources to provide an accurate accounting.

The Hospital when paid by Medicare, Medicaid and some commercial insurance companies typically do not distribute their payments to each line item. Even if SVMC did have a detailed cost accounting system the current systems require management to make too many assumptions. Additionally, what is the true cost of a pharmaceutical? Is it just the cost of the pharmaceutical, does it include the cost of purchasing, shipping, prescribing, and administrating all of these costs need to be considered and currently SVMC does not have the capacity to produce this level of detail.

The 340B program in its entirety benefits Vermonters and the Hospital. The 340B program at SVMC at a high level enables SVMC to have programs otherwise the Hospital would not be able to provide to the community that improves the health status of the community, provides services to the elderly that keeps individuals from having repeat visits to the hospitals, improves food security for kids as well as many other services. Management estimates the benefit of the program is over $5 million, without this program the cost of care would be greater and Vermonters.

j. Facility Fees

SVMC and other hospitals bill emergency room facility fees, this is how hospitals are reimbursed for our services.

SVMC bills facility fees with the appropriate Current Procedural Terminology (hereafter "CPT") codes for services provided to our patients in the Emergency Room. SVMC in the emergency room the Evaluation and Management (hereafter "E/M") codes 99281-99285, and 99291 are used as well as other CPT codes for specific surgical type services provided to patients in the emergency room based on guidelines. All "facility fees" billed by SVMC have a corresponding CPT code.

Below is a summary of the top five CPT codes billed.

	Description	*QTY*	*Total Charges*	*Estimated Net Revenue*
99284	EMERGENCY LEVEL 4	7,381	$6,135,456	$3,401,420
99285	EMERGENCY LEVEL 5	4,894	4,991,880	1,879,899
99283	EMERGENCY LEVEL 3	7,132	4,236,408	2,256,422
99282	EMERGENCY LEVEL 2	2,887	803,308	453,403
99291	EMERGENCY CRITICAL CARE	211	510,198	141,598
		22,505	***$16,677,250***	***$8,132,742***

k. Patient Financial Assistance

i*. Are patients given a financial assistance plan or policy with the first attempt to collect a debt?*

Financial assistance information, policy and applications are available at every registration area in the hospital. Information about financial assistance is included in every statement sent to the patient. This includes a link to SVMC's website where the information can be downloaded and a telephone number to call for financial assistance. Included with the 3rd statement sent to patients is a full-page copy of our Financial Assistance, "Plain Language Summary". For patients who do not have insurance, in addition to this information being on their statements, an itemized bill and a copy of our financial assistance application is mailed to the patient with their first bill.

ii*. If a contract with a third party exists to collect payments from patients, please provide this contract and disclose the amount paid for such collection efforts and the revenue generated there from.*

SVMC contracts with three collection agencies to collect payments from patients. The most recently completed fiscal year SVMC's collection agencies collected approximately $1 million with a cost to SVMC of approximately $250,000.

iii. *At what point of non-collection does the hospital write off the money owed as bad debt?*

SVMC sends three statements to the patient. If there is no payment received, balances under $25 are written off and balances over $25 are referred to a collection agency. If there is no payment made, the collection agency will typically cancel collection activities and send back the account after 180 days with the agency. Once an account is sent back management will review and decide if to write-off or refer to a second agency for follow-up. There are occasions when SVMC may engage a lawyer, but this is not that frequent.

iv. *What happens if a debt is collected outside of the allowed payment window? Does it show up as revision of the FY in which the services were provided or does it show up in some revenue line in the FY it was collected?*

Payments made to the Hospital are either a reduction in the accounts receivable/revenues or will be a recovery of bad debt which will reduce the bad debt expense. Currently, generally accepted accounting principles groups' bad debt expense and the recoveries of bad debt as a deduction to NPSR. As a result, a recovery of an account written off would be a positive to NPSR and show up as revenue.

v. *What, if any, effort does the hospital undertake to evaluate whether a patient can pay money owed to the hospital?*

See answer vi.

vi. *What, if any, effort does the hospital undertake to proactively evaluate whether a patient, prospective, current, or past, is eligible for the hospital's free care program?*

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 financial 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 patients and many insured patients for their services at SVMC. If during this estimate process the patient shows that they cannot afford the services, the patient is informed of the financial assistance program. For uninsured patients with an account balance over $5,000, SVMC billing office attempts to call the patient prior to sending the initial bill. Prior to sending patients 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.

vii. *Please provide the quantitative and/or qualitative evidence the hospital used to determine the appropriate Federal Poverty Limit ranges used for free care eligibility.*

SVMC chose the poverty limit ranges based on what we saw other hospitals were doing in Vermont, Massachusetts, and New York. The discount associated with those limits SVMC determine based on the amounts generally billed to Medicare in the fee for service model for the prior fiscal year. SVMC in the next few months will be updating the policy. Typically, we have had three ranges. If the individual was at 225% of the poverty level or less a 100% discount is provided. If the individual was between 225% and 300% a 75% discount is provided. Between 300% and 400% a 65% discount is provided.

I . Administrative Costs

SVMC breaks down “General and Administrative Expenses” for audited financial statements at the end of each fiscal year. This captures a broad array of expenses that are not termed “HealthCare Services Expenses” but all provide support of health care delivery. These costs include; 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.

As can be seen while not “direct care” all these areas support the delivery of care. General and Administrative expenses in the FY 2024 Budget total $38,302,000 or 18.7% of total expenses. The various components of these expenses are; Provider Tax, OneCare and Dues $11,547,000, Information Technology and Telecommunications $8,027,000, Registration, Billing and Coding $4,473,000, Human Resources, Child Care and Tuition Assistance $ $1,867,000, Liability and Property Insurance $1,078,000, Medical Records and Transcription $974,000 Purchasing and Materials Management $826,000, Allocations of Housekeeping, Engineering, Security, Depreciation and Fringe benefits $4,074,000 and All Other Administrative and General Expenses of $5,436,000.

Other Administrative Expenses include salaries of Directors and the Executive Management Staff. To attract and retain staffing for clinical and non-clinical manager and director positions, human resources reviews local and regional compensation information, salary surveys and feedback from recruiting efforts, among other sources of wage data, to confirm our wage rates remain competitive within our local (commutable distance) labor market.

Wage rates for executive level positions are influenced by a broader regional market. To determine whether our executive compensation levels fall within the 50th to 55th market percentile compared to wages among similar hospitals within our region (northeastern US), we use wage information provided by independent health care compensation consultants. Board leadership representatives review the wage information with the consultants to ensure executive salaries fall within the targeted 50th to 55th market range.

These cost categories were and will continue to be reviewed as part of SVMC's Financial Recovery plan and is an important part of the integration plan with DH.

FTE's and Compensation FY 2024 Budget

The table below provides the information requested for FTE's and compensation included in the FY 2024 Budget. It is worth noting that Physician and Associate Providers are compensated through a Professional Services Agreement (PSA) with DH reported in the Physician Fees, Salaries, Contracts and Fringes on the GMCB Summary of revenues and expenses. The figures represent total compensation paid to the providers and does not include fringe benefits or Medical Malpractices expense billed under the PSA.

Category	***FTE's***	***Total Compensation***	***Average Salary***
Executive Management	6.0	$2,079,217	$346,536
Clinical Directors	12.0	1,860,462	155,039
Clinical all other	395.5	34,584,116	87,444
Medical Practice Group	177.0	11,996,618	67,778
Non-Clinical Directors	11.0	1,798,240	163,476
Non-Clinical all other	210.1	13,380,256	63,685
Total Hospial Staff	***811.6***	***$65,698,909***	***$80,950***
Physician Salaries	70.7	$27,528,137	$389,365
Associate Provier (PAs/NPs)	27.5	3,933,690	143,043
Total Providers	***98.2***	***$31,461,827***	***$320,385***

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If there are any questions or comments please do not hesitate to contact Stephen D. Majetich, Chief Financial Officer at Stephen.majetich@svhealthcare.org or James Roy at 802.447.5040 or at James.roy@svhealthcare.org.