

Southwestern Vermont Medical Center
Operating Budget
Fiscal Year 2023

A. SUMMARY

Southwestern Vermont Medical Center's (hereafter "SVMC" or "Medical Center" or "Hospital") Operating Budget for Fiscal Year (hereafter "FY") 2023 has a planned operating gain of nearly \$904,528 or an operating margin of approximately 0.5%. Table #1 provides the high level comparative summary Statement of Operations.

SVMC management would classify this budget as a "Challenging" budget, which may be an understatement in light of the "post pandemic" and the overall state of the economy. SVMC has for many years had budgeted approximately a 3% operating margin. The 3% operating margin is recommended by many as a result that allows not-for-profit hospitals to generate a small profit to assure that they can reinvest in patient care needs and continue to meet their missions to serve their communities. SVMC's pre pandemic budgets were in compliance with the GMCB's recommended Net Patient Service Revenues (hereafter "NSPR") guidelines in addition the "pandemic" years and the FY 2023 Operating Budget continues to be in compliance with the Green Mountain Care Board's (hereafter "GMCB") guidelines.

Currently, daily the cost of delivering care to Vermonters is changing and unfortunately increasing. In addition, the landscape to collect from insurance companies and patients to meet those increasing costs are being challenged. Before we go into the details of the FY 2023 operating budget SVMC management will provide some examples of what SVMC has encountered since the approval of the budget by management in June.

- *Net Patient Service Revenues*
 - An insurance company, whose volumes represents about 4% of SVMC revenues, notified SVMC that they are requesting a 30% rate reduction, possible impact nearly \$1.6 million;
 - An insurance company issued a new payment policy that would restructure payment for certain services and if instituted would reduce reimbursements to SVMC by over \$1.4 million. Management has discussed this matter with the insurance company and there is excellent dialogue between the organizations and SVMC is awaiting a final resolution, which SVMC's management expects to be favorable.
- *Operating Costs*
 - SVMC's professional insurance liability renewal, management included in the budget over a 15% increase. The actual renewal original quote was a 34% increase. SVMC has requested additional competitive bids with the same limits and deductibles. Quotes are greater than a 30% increase. Management is in the process of revising limits and deductibles which may decrease costs but may increase risk to the organization;

- A significant contract renewal, with a long standing local vendor which amounts to over \$500,000 a year has requested a 23% increase in costs for labor, supplies and the cost of fuel. In the budget management provided a 10% increase. Management is continuing to work with the vendor on costs and scope to reduce the requested increase.

Each day and over the past years there have been similar challenges but **not** to the magnitude of the above items. These are just a few examples of what is on the horizon for SVMC, other hospitals in Vermont and the country.

Table #1 is the comparative Summary Statement of Operations.

Table #1 – Comparative Summary Statement of Operations

	<u>FY 2021 Actual</u>	<u>FY 2022 Projected</u>	<u>FY 2022 Budget****</u>	<u>FY 2023 Budget</u>
Net patient service revenues	\$176,337,632	\$184,557,483	\$177,594,439	\$188,872,209
Covid-19 Funding	4,507,693			
Other operating revenues	8,776,350	7,914,586	6,794,328	8,149,457
<i>Total operating revenues</i>	<u>189,621,675</u>	<u>192,472,069</u>	<u>184,388,767</u>	<u>197,021,666</u>
Operating expenses	181,093,942	193,397,028	180,760,242	196,117,138
Operating gain	8,527,733	(924,959)	3,628,525	904,528
Non-operating activities	1,767,748	(377,809)	465,000	679,981
Excess revenues over expenses	<u>\$10,295,481</u>	<u>(\$1,302,768)</u>	<u>\$4,093,525</u>	<u>\$1,584,509</u>

**** Excluded loss related to termination of pension plan

Comparing to the FY 2022 approved budget the increase in NPSR is approximately \$11.3 million or a 6.35% increase. The four year increase (FY 2019 actuals is the last non COVID-19 fiscal year) the FY 2023 budget increase is \$24.9 million for the four year period. This is an annual increase averaging 3.8% for the four years.

The increase in NPSR includes a requested effective net charge master increase of 9.5%, and the anticipation of volumes fairly consistent with FY 2022 levels. Continued participation in OneCare VT. SVMC management has **not** provided any upside or downside risk in this budget related to the OneCare VT model. A provision for lost revenues due to increased retrospective audits and denials from third party payers has been included. Management is assuming a shorter inpatient length of stay for FY 2023 due to fewer COVID-19 patients. In FY 2022 emergency room and imaging volumes are exceeding budgeted levels and FY 2021

levels. Management is expecting volumes to continue to increase or hold the current run rate in these services, in the FY 2023 budget.

The budget includes a lower level of COVID-19 laboratory testing volume, revenue and expenses below FY 2022's projections based upon management's best estimates at this time. The budget assumes vaccines will primarily be administered in primary care physician practices, Express Care and at local pharmacies in our region. The Hospital will maintain a Respiratory Evaluation Center for patients with COVID-19 symptoms and patient/visitor screening teams; greater scheduling of patients adding direct and indirect costs to the Medical Center.

Table #3 is a summary Statement of Cash Flows for the FY 2023 budget. Included on the statement are the material drivers of Medical Center's cash flows. The FY 2023 Operating Budget will generate a positive gain from operations of approximately \$900,000. After the cash needs, including capital purchases of the organization the expected cash balance will increase by approximately \$200,000. Capital spend in FY 2023 will be nearly \$21 million.

Table #3 – "High level" Statement of Cash Flows

	FY 2023 Budget
Operating gain	\$904,528
<u>Add: Non-cash activities</u>	
Non-operating gains	679,981
Depreciation expense	6,356,989
<i>Cash provided by operations and non-cash activities</i>	7,941,498
<u>Less: Investing and financing activities</u>	
Capital purchases	(5,000,000)
FY 23 ED project spend	(15,600,000)
Transfer from Construction Fund	15,186,791
Transfer from Foundation	2,921,612
Long term debt payments	(921,000)
<i>Cash used for investing and financing activities</i>	(3,412,597)
<i>Net other changes requiring cash</i>	(4,328,224)
Net increase (decrease) in cash and equivalents	\$200,677

The past few years the Medical Center has invested in itself from cash reserves and investment earnings from its parent organization. The investment earnings in FY 2023 are in jeopardy due to market conditions. The Medical Center reports 19.3 days cash on hand, however, the Medical Center's and its parent organization consolidated day's cash on hand and investments are projected to be approximately 194 days as of September 30, 2023.

Below are summary points of material items included in the budget:

NO provisions are included in the FY 2023 Budget for increased volumes related to the COVID-19 pandemic, however, provisions are included in the budget to assure the safety of our patients and employees. Additional costs have been provided and will receive constant evaluation. NO Federal or State "Stimulus" funds have been included in the FY 2023 Budget.

Revenue—Rate/Price

- The effective charge master increase of 9.5% is being requested;
- Based upon what management is seeing the commercial insurance volumes are budgeted to decrease in FY 2023;
- Included in the budget is an increase in non ACO Medicare reimbursement of 3.2% for FY 2023;
- Provider reimbursement has not been increased or decreased for FY 2023 due to changes in the wRVU's and proposed fee schedules;
- Vermont Disproportionate Share Payments (hereafter "DSH") are budgeted to increase slightly;
- Indigent care (bad debt and charity care) is budgeted to increase by approximately \$250,000. Bad debt was budgeted at \$7,400,000 in FY 2022 and \$7,650,000 in FY 2023;

Revenue—Volumes/Services

- Increased patient emergency room visit volumes and imaging volume based on recent trends;
- Decreased laboratory COVID-19 testing volume due to increased access to in-home testing kits;
- Consistent volume in orthopedic surgeries and endoscopy service;
- NO new services are anticipated.

Operating expenses

- A 6% salary increase was included;
- FTE's of 814, 18 FTE's higher than the FY 2022 budget mainly due to direct and In-direct COVID-19 needs, such as patient greeters/screeners and staffing the Respiratory Evaluation Center;
- Provider tax increase of approximately \$1,080,247 from FY 2022 Budget based upon management's estimate and prescribed formula;

- Provisions are included to maintain safety measures for our patients and employees related to COVID-19;
- Inflationary increases are included in supplies and parts of purchased services of between 5-7% with higher amounts in certain expense categories;
- OneCare VT participation fees of approximately \$1,500,000 for FY 2023 are included;
- Supply cost savings initiatives amounting to \$750,000, that our Value Analysis Team has been charged with, is included in the budget;
- Purchased services includes \$500,000 of planned performance improvements / expense reductions.

Capital

The FY 2023 capital budget and investments is \$5,000,000. The ED Modernization project capital spend in FY 2023 is estimated to be \$15,600,000 of the over \$31 million project.

Management's Comments

The FY 2023 total NPSR budget was prepared utilizing “*fee for service*” models then split between “*fee for service*” and “*fixed prospective payment*” revenues. The Medical Center has been participating in the Medicare, Medicaid and Blue Cross QHP “risk models”. **The “upside and downside risk” was not considered in the budget preparation.** No upside revenues were recorded or included in the budget and there were no downside risk reserves recorded as well. The neutral midpoint was included in the budget. However, it is worth noting that Management’s philosophy is to conservatively record actual results based upon the best information available at the time of the financial statement close.

The FY 2023 Budget is highly dependent on volume and revenue levels reaching budgeted levels. The operating room, endoscopy services and radiology services are all exceeding plan in FY 2022.

The FY 2023 budget is dependent on no major changes to reimbursement from insurance companies.

B. YEAR-OVER-YEAR and RECONCILIATIONS

i. Net Patient Revenue and Fixed Prospective Payments (NPR/FPP) Overview

The \$188,872,209 of NPSR is an increase of \$11,277,770 or approximately 6.35% when compared to the FY 2022 budget. In the FY 2022 projected figures there are significant revenues from COVID-19 patients both inpatient and outpatient so comparatives to projected amounts are difficult. Approximately \$5.5 million of COVID-19 related revenue was removed from the FY 2023 budget.

FY 2023’s budget increase has two high-level components, rate and volume, when compared to the FY 2022 budget. The rate change is an increase of \$8,448,516 or approximately 4.8% which

will be discussed in the charge request section. The “volume” component is an increase of \$2,829,254, or approximately 1.6%.

Table #4 will show the components of the budget changes, budget to budget.

Table #4 – FY 2022 NPSR budget rate and volume changes, budget to budget

FY 2022 budgeted NPSR	\$177,594,439
Rate increases	8,448,516
Volume increases	<u>2,829,254</u>
FY 2023 NPSR Budget	<u><u>\$188,872,209</u></u>

ii. Net Patient Revenue and Fixed Prospective Payments (NPR/FPP) Utilization

Table #5 below will list the major volume and services changes included in the FY 2023 budget compared to the FY 2022 budget.

Table #5 – Volumes and Service changes, budget to budget

	<u>Amount</u>	<u>Percent of FY 2022 NPSR</u>
Emergency room visits	\$2,364,861	1.3%
CT Scan volumes	613,892	0.3%
Ultra Sound volumes	531,333	0.3%
Radiation therapy volumes	359,542	0.2%
Observation patient volumes	324,639	0.2%
MRI volumes	232,163	0.1%
Renal	208,884	0.1%
Outpatient lab volumes	<u>(1,806,062)</u>	<u>-1.0%</u>
Total volume and service changes in revenues	<u><u>\$2,829,254</u></u>	<u><u>1.6%</u></u>

Below will provide explanations on several of the items included in the table above.

- Emergency room visits are budgeted to increase by 10.7% from the FY 2022 budget. Emergency room volume has been the slowest volume to return to pre COVID-19 levels and therefore was budget at lower levels in FY 2022. While the FY 2023 budget reflects 23,000 visits are consistent with FY 2022 projected volume but still 5% lower than FY 2019.
- Imaging volumes (CT Scan, Ultra Sound, MRI) were based on the recent trend. Volume is budgeted to increase 9% to 14% from the FY 2022 budget. This is mainly due to a higher emergency room visits and fully staffed orthopedic group.

- 3. Radiation therapy volume is budgeted at a level consistent with current trends.
- 4. Laboratory COVID-19 testing volume was budgeted to decrease significantly from 2022 projected volume based on the high rates of Vermonters being vaccinated and the availability and acceptance of in-home testing kits.

Management is still uncertain of what will occur related to the volumes in FY 2023 and what effect the pandemic has had on human behavior related to health care.

iii. CHANGE IN CHARGE REQUEST

In this budget SVMC is requesting a gross charge master increase is 9.5%. Physician practice, and related services charges as well as other identified tests or procedures will not be increased. Approximately 65% of the Hospital charges will be increased. Drugs and medical supplies continue on a cost plus method which will be consistently applied in FY 2023 as in FY 2022 and prior. Realization of the approximately \$8.0 million is dependent on commercial insurance, Blue Cross and managed care volumes. The charge increase assumes no impact of COVID-19.

For Medicare and Medicaid payers the increase in gross charges will not directly increase NPSR. For Commercial insurers, the increase in gross charges will increase NPSR but not on a dollar for dollar basis. Commercial insurance impact varies depending on the individual payer contracts. Bad debt and free care are generally written off at charges therefore a rate increase will increase bad debt and free care by the charge increase amount. The charge increase impact on bad debt and charity care will be approximately \$250,000.

Table #6 provides the components that pertain to the rate changes of approximately \$8.4 million.

Table #6 – Rate changes included in the FY 2023 budget, budget to budget

	<u>Amount</u>	<u>Percent of FY 2022 NPSR</u>
Net realization of the charge increase, <u>before</u> bad debt and charity care	\$7,933,515	4.5%
Medicare proposed rate increase	1,533,139	0.9%
Medicaid proposed rate increase	144,276	0.1%
Payer mix	(957,150)	(0.5%)
Medicaid DSH increase	44,736	0.0%
<i>Subtotal</i>	<u>8,698,516</u>	<u>4.9%</u>
Net change in bad debt and charity care	<u>(250,000)</u>	<u>(0.1%)</u>
Total changes in rate	<u><u>\$8,448,516</u></u>	<u><u>4.8%</u></u>

Below are summary explanations of the above items.

- A. Net realization of charge increase before bad debt and charity care--\$7.9 million.
- B. The FY 2023 budget was prepared with decreases in commercial insurance volumes based upon recent trends. The historical volumes SVMC has seen are increases in Medicare volumes and decreases in commercial insurance volumes. *This trend is supported by demographic information in the population, showing an aging population in our service area.* Management will be monitoring closely.
- C. Medicare and Medicaid rate increase – in the budget for all Medicare there is a 3.2% increase and Medicaid patients is a 1% rate increase. These are based upon for Medicare the proposed Inpatient Prospective Payment System increases and management’s estimates of the Outpatient Prospective Payment System changes. Medicaid is management’s estimate at this time.
- D. The DSH payments are being reduced based upon the management estimates.
- E. The charge increase impact as well as the overall impact of the local economy due to the COVID-19 and others will put additional pressures on the financial assistance policy and the ability for patients to pay their bills for care due to lack of insurance. The overall increase for this combined reduction of NPSR is \$250,000 which includes bad debt and charity care.

iv. Adjustments (physician transfers and accounting adjustments)

In the FY 2023 SVMC budget there are no physician transfers. There are no accounting adjustments included except for the loss of the pension settlement in Non-Operating revenues.

v. Other Operating Revenue and Non-Operating Revenues

Other operating revenues are increasing by \$1,355,129 or 19.9%. Table #7 below shows the major changes.

Table #7 – Other Operating Revenues, budget to budget

FY 2022 budgeted – Other operating revenues	\$6,794,328
340B contract pharmacy revenues	1,050,000
Grant / Foundation revenue increase	669,634
Dietary revenues increase	7,002
Child Care revenues increase	59,539
Other changes, net	<u>(431,046)</u>
<i>FY 2023 Other Operating Revenues</i>	<u><u>\$8,149,457</u></u>

It is expected that the Medical Center will see increased volumes related to the 340B contract pharmacy revenues. This is based on recent trends and improved capture of 340B contract pharmacy volume.

vi. Operating Expenses

Operating expenses are budgeted in FY 2023 at \$196,117,138 which is greater than the FY 2022 budget by \$15,356,896 or 8.5%. Comparisons to the FY 2022 budget with the differences in volumes, COVID-19 activities as well as others, makes it difficult to evaluate and explain the FY 2023 operating expenses. Management will attempt to be complete and brief in its explanations.

Salaries, Fringe Benefits, Physician Fees, Contracts

This category of expense on the GRCB reporting is \$114,485,655 compared to FY 2022 budget of \$105,786,588 or an increase of \$8,699,067 or 8.2%. Below review the components of this expense.

Salaries and wages

Salaries and wages are budgeted at approximately \$62,269,494 an increase of approximately \$8,063,259 or 14.9% over the FY 2022 budget. The FY 2023 budget includes 813.8 FTE's up from 795.4 FTE's. Below are significant assumptions in the FY 2023 budget:

- Total budgeted FTE's of 813.8 are approximately 18.4 FTE's higher than FY 2022's budget but 2.6 FTE's lower than FY 2022 projected actual FTE's. The budget to budget increase in FTE's is primarily due to new protocols and in the clinical areas;
- In FY 2023, management is providing for the wage increases of an average of 6%;

Table #8 identifies the components to the increase in salary and wage budgeted expense compared to the FY 2022 budget amounts.

Table #8 Components of the Salaries and Wages budget changes

	<u>Amounts</u> <i>(rounded)</i>
Compensation increase FY 2023	\$2,472,448
Compensation increases FY 2022	4,180,441
FTE increases	993,600
Other changes	<u>416,770</u>
Net increase in salary and wage expense	<u>\$8,063,259</u>

Staff retention and recruiting in FY 2022 was the most challenging issue facing the hospital. In FY 2022 COVID admissions increased census due to longer length of stay. Traveling nurse companies were offering salaries over 3 times current salaries. Inflation and availability of even entry level employees made recruitment for those positions very difficult.

Management was able to navigate for the most part without hiring traveling clinical staff in FY 2022. Salaries and wages in FY 2023 are budgeted to increase 3.0% over the projected FY 2022.

Employee Benefits

In the FY 2023 budget, the Employee Benefits are increasing by \$1,677,053 or nearly 10.9% above the FY 2022 projected actual and \$80,793 above FY 2022 budget. The employee benefit budget is \$17,019,291.

- Health Insurance trends for SVHC/SVMC have been favorable for several years. Over the last few months management has seen an increase in high dollar claims. Management is budgeting an increase of approximately 14.2% over projected FY 2022 costs in FY 2023.
- Workers compensation plan at SVHC/SVMC an increase in FY 2022 and we anticipate the trend to level off in FY 2023. Costs are budgeted to increase approximately \$150,249 in the FY 2023 budget from the current budget. This is attributed to FTE count and some experience.

The other costs in this category are based upon historical and mandated percentage of salaries and wages. They include FICA, Defined Contribution Pension Plan, Life Insurance, and Short and Long-Term Disability.

DH Professional Services Agreement (hereafter "PSA") Costs

This category of expense is budgeted to increase by nearly \$555,015 or 1.6% in the FY 2023's budget compared to FY 2022's plan. The total cost of \$35,196,870 includes salary and wages for the contracted individuals as well as employee benefits, malpractice costs and approximately \$400,000 of other support costs. Table #9 below provides FTE details provided via the PSA.

Table #9 – PSA related FTE’s

	<u>FY 2022 Projected</u>	<u>FY 2022 Budget</u>	<u>FY 2023 Budget</u>
Physician	67.02	64.45	66.05
Assoc. Providers	27.72	30.67	26.92
Total PSA FTE’s	94.74	95.12	92.97

Health Care Provider Tax

The absolute dollar amount of the increase of over \$1,080,247. The FY 2023 provider tax is budgeted at 6% of the projected FY 2022 revenue with an adjustment for the difference between the State’s fiscal year and the Medical Center’s fiscal year. The increase in provider tax represents over 10.8% of the Medical Center’s increase.

Depreciation and Amortization Expenses

The depreciation and amortization expense will be budgeted at approximately \$6.4 million. This is based upon a FY 2023 Capital Budget of \$5,000,000 and the remaining estimated useful lives of buildings and equipment acquired in FY 2022 and prior.

Interest Expense

Interest expense in FY 2023 is budgeted at \$599,354. In order to maintain operating cash balances, repay the non-interest bearing advances as well as others, management is anticipating interest to be consistent with FY 2022 related to utilizing the line of credit with TD Bank in FY 2023. In addition, there are several small capital leases expected to be executed in order to preserve cash in the capital budget.

Other Operating Expenses (Including ACO Participation Fees)

This GMCB category of expense is budgeted to increase by \$5,223,680. Below are the significant components to this grouping of costs.

Medical/Surgical Drugs and Supplies

Drug costs are budgeted to increase by \$1,333,017 or 8.8% in the FY 2023 budget over the budgeted FY 2022. Over 80% of the drug costs are incurred in the Cancer Center each year and volumes based on current trends are down. The budget assumes continued drug cost savings in FY 2023 because of initiatives with DH to identify areas for savings and 340B program savings.

Supplies

The supplies expense budget is anticipated to increase \$676,885 or 5.3% compared to the FY 2022 budget. The Medical Surgical supply expense budget is \$13,465,250 compared to \$12,788,365. This increase is driven primarily by inflation, in addition, a \$750,000 supply cost savings has been budgeted. These savings will be determined by our Value Analysis Team. An inflation factor of 5% was included in the budget as well as additional costs for Personal Protective Equipment.

Purchase services, utilities, insurance and other

Included in this section is approximately \$1,500,000 of OneCare VT dues. This is based upon OneCare VT draft projections for FY 2023.

This category of expense is budgeted to increase by \$3,213,778 or 10.6%. Each significant area in this large category will be described. Below in Table #10 will provide details on the changes in the cost composition of this category of expense.

Table #10 – Purchase services, utilities and other significant changes, budget to budget

	<u>Amount</u>
One Care dues	\$300,000
Oncology provider locum	723,576
Information Systems	661,900
Urology MD locum	650,000
Contract labor-nursing	500,000
GI MD locum	315,712
Utilities	185,992
Insurance	125,000
Performance improvement initiatives	(500,000)
Other changes	<u>251,598</u>
Total changes	<u>\$3,213,778</u>

Below are summary explanations of some of the changes in the FY 2023 budget compared to the FY 2022 budget.

Urology MD Locum – The FY 2023 budget includes the purchase of additional locum services to cover for the full-time physician vacancy;

Oncology MD Locum – The FY 2023 Budget includes a recent contract with a physician locum to cover a vacancy in the Oncology practices;

Information Systems – The FY 2023 Budget includes additional expenses for IS service contracts and cyber security services;

Contract Labor – The FY 2023 budget includes \$500,000 for nursing services contract labor;

Utilities – Utilities are budget to increase by over 10%;

Insurance – Insurance premiums are anticipated to increase by 33% in FY 2023 based on a recent quote from our carrier.

vii. Operating Margin and Total Margin

The FY 2023 proposed Budget assumes approximately a .5% operating margin and a .8% total margin.

The FY 2023 operating and total margins are down from the historical performance levels as demonstrated by the table on the following page. SVMC’s goal is to maintain annually 3% operating margin to reinvest in itself and assuring the high level of quality care to the patients we serve. SVMC’s operating performance has been constant over the past several years as demonstrated by the table below.

Table #11 – Operating Margins FY 2016 to present

	<u>Operating Margin Actual</u>	<u>Operating Margin Budgeted</u>
Fiscal Year 2016	3.40%	3.00%
Fiscal Year 2017	3.70%	3.00%
Fiscal Year 2018	4.60%	3.90%
Fiscal Year 2019	3.30%	3.60%
Fiscal Year 2020**	2.80%	3.40%
Fiscal Year 2021**	4.50%	0.10%
Fiscal Year 2022	-0.48%	1.97%
Fiscal Year 2023		0.45%

** Includes Federal and State Relief Funds

The FY 2023 operating budget does not meet SVMC’s goal. Management is of the opinion that this “Challenging Budget” will be just that. FY 2023 will continue the post pandemic recovery, however, we are sure there will be new challenges to get back to the goal of a 3% operating margin.

C. EQUITY

What is your hospital doing to recognize and correct inequities in your community, and prepare for the development of health equity measures?

RAND defines a health equity measurement approach as “an approach to illustrating or summarizing the extent to which the quality of health care provided by an organization contributes to reducing disparities in health and health care at the population level for those patients with greater social risk factor burden by improving the care and health of those patients.”

Over the past decade SVMC has been a leader in community investment in an effort to spark economic growth because economically vibrant communities have a better opportunity to address inequities than do economically struggling communities. Those investments have ranged from refurbishing homes, to investing in a downtown development, to buying a defunct college campus. SVMC has also made strong investments in addressing food insecurity and supporting education programming for vulnerable groups. However, the inequalities in our community are significant and a coalition of community partners investing to ameliorate inequities is required.

SVMC's recent triennial community health needs assessment (completed in 2021) identified health disparities between population segments across SVMC's service area. SVMC has launched the Community Outreach Task Force to engage with specific population segments. The task force's work is beginning to identify near-term opportunities; however, the barriers to remediation and achieving community equity are often financial and time. Addressing inequities in our community will require sustained investment for decades.

D. WAIT TIMES

This section will be in attachment 1

E. RISKS AND OPPORTUNITIES

Below will highlight significant assumptions, changes to operations, possible opportunities and risk before the document gets into the details:

- There is no significant COVID-19 volumes included in the inpatient volumes. Due to the uncertainty of the COVID-19 virus, management budgeted FY 2023 based upon non-COVID-19 volumes;
- Recruitment and retention of providers, nurses, allied health professional and other service workers;
 - Providers, currently in the budget there are locum costs for many specialists more than in past years;
 - Primary care providers are being challenges due to increased workload and the low supply of young/new primary care providers to recruit;

- Recruitment in general is challenging in the current environment for non-providers.
 - Individuals are leaving the workforce;
 - Individuals are going the highest paying employer.
- Continued participation in the 340B Drug Program which benefits the Hospital by over \$5 million, annually. As of May 31, 2020, eight months of the fiscal year, SVMC DSH percentage is 8.9%. To qualify, SVMC needs to be greater than 8%.
- Increased pressures from the insurance companies and government payers, not to pay for services. Denials are increasing in numbers and hospitals do not have the resources to manage.
- Supply cost savings initiatives amounting to \$750,000, that the Value Analysis Team has been charged with, is included in the budget as well as \$500,000 in the purchase services expense category;

There are many other risks currently in the environment, however, the **most immediate significant risk** that SVMC and other hospitals are facing are related to workforce. It ranges from ability to recruit or find individuals to meet the needed roles to the affordability once you find the individuals. In addition, affordable housing, good jobs for the individuals partners as well as the “quality” of life. All the other mentioned items are important, however, workforce heads the list.

F. ONECARE VERMONT PARTICIPATION

Currently, SVMC is planning to continue to participate in the Medicare, Medicaid and Blue Cross VT as well as the other minor programs. SVMC reserves the right to withdraw from participation since as of June 30, 2022 the risk corridors both upside and downside have not been agreed to by OneCare VT with the payers to management’s knowledge.

SVMC has provided approximately \$1.5 million in dues in its budget. As previously discussed this is based on what SVMC is currently paying. OneCare VT’s finance management has communicated that it is their intent not to increase the dues to SVMC and other participants, however, OneCare VT needs to have this plan approved by its Board and the GMCB which will happen later this year.

The maximum risk liabilities and upside opportunity have not been fully negotiated by OneCare VT with the payers and the table below is to the best of SVMC’s knowledge at this time.

Program	Risk	Opp.
Medicare	2%	2%
Medicaid Traditional	2%	2%
Medicaid Expanded	2%	2%
BCBSVT QHP	0%	3%
MVP QHP	0%	3%

This is SVMC’s modeling using the above parameters and the anticipated volumes and revenues. The estimated downside risk is nearly \$2 million and the upside is slightly higher. *These are SVMC’s estimates at this time and are subject to change. It is again worth noting these amounts are SVMC’s estimates and in preparing this budget management does not include any downside risk or upside opportunity in its budget request.*

The table below provides estimated NPSR breakout by fee for service and fixed payment model.

Total NPSR breakout

Fee for service NPSR	\$151,642,851
Fixed prospective payment NPSR	<u>37,229,358</u>
Total NPSR	<u>\$188,872,209</u>

Fixed Prospective Revenue (est.)

Medicare	\$23,297,261
Medicaid	9,432,097
Blue Cross exchange and commercial	<u>4,500,000</u>
Total	<u>\$37,229,358</u>

SVMC reserves the right to withdraw from the respective payer plan if the negotiated risk corridors are not acceptable to SVMC’s Leadership.

G. CAPITAL INVESTMENT CYCLE

The Medical Center currently has an approved CON for the Modernization of the ED for over \$25 million and has requested an increase to that amount. This CON is for a significant upgrade to the Emergency Room, front entrance, traffic flow and wayfinding. No operating costs associated with the Emergency Room project are included in the FY 2023 operating budget.

In FY 2023 SVMC will submit an estimated \$13 to \$15 million CON to modernize the Cancer Center.

The capital spend in FY 2023 will be \$5.0 million. Consideration on a greater amount for FY 2023 will be evaluated by management and the Board of Trustees. Most of the remaining FY 2022 and FY 2023 will be routine replacements of aging equipment. SVMC's age of plant exceeds 18 years.

Management in the coming years will be evaluating significant changes to the physical plant of the Medical Center. In addition, we anticipate changes to its current information technology platform, the development of partnership for clinical programs, residency programs, as well as possible corporate affiliations. The evaluation of each continues.

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If there are any questions or comments please do not hesitate to contact Stephen D. Majetich, Chief Financial Officer at 802.447.5011 or Stephen.majetich@svhealthcare.org.