Southwestern Vermont Medical Center (SVMC)

Follow-up Question and Requests Related to Your Budget Submission

On labor expense

1. **You've implemented some impressive programs to avoid relying on travelling staff. Would SVMC recommend other hospitals take similar measures? What are the biggest lessons from these programs?**

Assuring that SVMC is appropriately staffed from a nursing standpoint requires constant work and attention. SVMC's ability to make this happen can be attributed to the dynamic clinical nursing leadership team who dedicate their time to assuring that needs are met and that we are able to pivot quickly. Lessons learned from these programs include:

- First and foremost, the nursing leaders are on board with not using agency staffing. They are all in the mix of figuring out other ways of managing flow
- One of the strategies that we use is that all nursing leaders are expected to pitch in for clinical needs. When the census rises, it is viewed as all hands on deck and as a full house concern. This means that all of our clinical directors wear scrubs ~ providing the implicit message that we are available to help with clinical care. We do everything possible to be able to flex up quickly.
- Our top priority is patient care and we will cancel meetings or flex hours in order to make that happen.
- We avoid increasing nurse:patient ratios, in order to make sure that we do not "give a nurse a reason to leave."
- Our leaders will flex to help on weekend or evening/night coverage when needed.
- We bonus staff for additional time ~ and we bonus the leaders for additional coverage.
- We started a weekend warrior program to provide increased weekend commitments which allows more flexibility during the week.

Feedback from the nurses includes that they are grateful to work alongside their leaders who are also providing direct clinical care. It makes a difference.

This is not an easy strategy to implement, and we continually work to avoid the agency need.

On utilization

2. **Can you provide a more specific assessment of where volume has increased above FY2024 budgeted expectations? How have you recalibrated your expectations as to not under predict your NPSR for FY2025.**

Through the first nine months of FY2024 patient volumes are above budget in the following areas: inpatient admissions 3.4%, emergency room 4.2%, outpatient operating room 3.7% and in most of the outpatient imaging areas. In addition, pharmacy revenue has increased related to increased infusion and oncology practice volume.

If we were to recalibrate our FY2025 projections with the most recent data, SVMC NPSR would be similar or slightly less than what is in the FY2025 budget. The FY2025 volume assumptions were based primarily on FY2024 actual volumes for the first five months of this fiscal year. The nine-month annualized volumes are slightly lower in almost every area.

On pharmaceuticals

3. **Why do you indicate an approximately 21% increase in pharmaceutical expenditures compared to the FY2024 budget?**

The budget assumes an increase in pharmaceutical expenditures because of two main factors. The first is the drug price increase being charged to hospitals from the manufacturers which is estimated at approximately 6.5%. The second reason is anticipated volume in both SVMC's outpatient business as well as the 340B Contract Pharmacy program. In order to increase access to cancer treatments in Vermont, the oncology practice was fully staffed in FY2024. New providers have continued to add patients and improve throughput, leading to the increase use of oncology drugs at SVMC rather than having the patient travel out of state to New York, Massachusetts or New Hampshire. SVMC anticipates additional savings in the 340B Contract Pharmacy program in FY2025 which has offsetting expense in the pharmaceutical expenditure category. This was elaborated on during the budget hearing.

4. **Does the 340B program reduce pharmaceutical prices for patients as well as the hospital? Can you please provide a sense of how much of the 340B discounts you're passing on to your patients.**

Appropriately, the savings SVMC realizes as a result of its participation in the 340B program benefit both our direct patients and the larger community we serve in many ways. As stated on the HRSA website, the statutory intent of the 340B program is to "enable covered entities to stretch scarce federal resources as far as possible, reaching more eligible patients and providing more comprehensive services." As you know, manufacturers participating in Medicaid agree to provide outpatient drugs to covered entities at significantly reduced prices in exchange for that Medicaid

participation. Importantly, only drugs purchased for an outpatient basis are eligible for the 304B program, not the drugs used in the hospital for inpatients.

Hospitals like SVMC are not automatically eligible to participate in the program. Instead, they must meet certain criteria, like serving low-income patients who are not eligible for Medicare or Medicaid. The cost of the services provided by the hospital are typically not covered in full by reimbursement. 100% of the savings that SVMC realizes from the program are used to benefit patients, including by helping to subsidize its charity care policy. 340B savings is a source of funds for services provided to patients that qualify at no cost. The drug savings realized as a result of 340B program participation are also used to fund other initiatives that allow SVMC to increase access to services that may not be able to be offered without the savings. Obstetrics services is just one example of a high Medicaid service that typically does not cover the cost and is able to be maintained by SVMC due to the 340B program. This is exactly what the federal program was intended to do. The 340B program is a good program for the residents of Vermont because without it, the rate increases requested each year during the budget process would have to be much larger, increasing costs of healthcare for patients with commercial insurances. Without the program, services that provide critical access to patients would have to be eliminated.

5. **Do you make a profit off your pharmaceutical operations? If so, please specify how much. Please specify any profits made from the 340B program specifically.**

SVMC's cost accounting system does not currently have the functionality to provide detail-level net reimbursements above cost for individual drugs. Moreover, Medicare, Medicaid and some commercial insurance companies typically do not distribute their payments to each line item when reimbursing SVMC for services. Management estimates the total financial benefit of the 340B program to SVMC is over $6 million, thanks to careful management of the savings realized on eligible drugs. As discussed above, those savings are used in their entirety to benefit our patients and community. In addition to funding service lines SVMC may not otherwise be able to offer and underwriting charity and uncompensated care, SVMC uses its 340B savings for programs that improve the general health status of the community, provide services to the elderly, improve food security for kids, and more. All of these community efforts have the effect of reducing overall health costs and keeping community members from making repeat—often emergency--visits to the hospital for preventable conditions.

On rate changes

6. **Why is none of your price increase allocated to professional services.**

Professional service fees were not increased in the FY2025 budget. As a way limit commercial rate growth fees will stay consistent with prior year. This also supports SVMC's commitment to population health and incentivizing patients to go to their primary care provider for routine checkups. This should lead to less spending on healthcare for the system.

On administrative vs. clinical spending

7. **Do you foresee that your partnership with Dartmouth Health will be able to further reduce your administrative spending? If so, do you have an administrative to clinical ratio to which you're aspiring?**

SVMC continues to work with Dartmouth Health to be able to further reduce our administrative spending. SVMC has not yet established an administrative to clinical cost ratio target, but anticipate additional savings in HR, Finance, IT, Insurance and other administrative functions as the affiliation develops.

On your workbook submission

8. **Please review the rate decomposition details you submitted as well as the "summary" tab and explain the following (where available, show supporting calculations):**
    a. **How did you arrive at the assumed rates of growth for price, volume and payer mix shifts by payer?**

The assumed rate of growth for price was established by our revenue model that breaks down revenue by service line, gross charges and net revenue collected on that volume of service by each payer. When commercial charges are increased the model calculates the anticipated NPSR based on the average collection percentage for that service by that payer.

Gross charge increase for service X for payer Y times collection percentage = additional NPSR.

The volume increase is done in the same model by calculating additional volume units times NPSR per unit.

Payer mix shift is calculated by looking at the same total patient volume, but calculating what the NPSR impact of a 1% shift would be from one payer source to another.

    b. **For non-zero values in the "other" column, how did you derive these estimates?**

Nothing was recorded in the "other" changes column.

On last year's deliberations

9. **Last year, the board authorized an increase in NPR/FPP for FY24B in part because your hospital was embarking of "strong investments". Can you provide an update on major Investments you've made in the past year?**

In FY2024 the "strong investments" referred to was the Emergency Department Expansion and Renovation Project. This project will have been completed by the end of FY2024.

Other

10. **Do you think Medicaid is underfunding the cost of delivering care to you Medicaid patients? If so. Please quantify the amount based on 2023 actuals. Please explain your calculations.**

SVMC does believe Medicaid is underfunding the cost of delivering care to the Medicaid patient we serve. In FY2023 the estimated underfunding based on using the total cost to patient charge ratio is over $23 million.

11. **Do you think Medicare is underfunding the cost of delivering care to your Medicare patients? If so, please quantify this amount based on 2023 actuals. Please explain your calculation.**

SVMC does believe Medicare is underfunding the cost of delivering care to the Medicare patients we serve. In FY2023 the estimated underfunding based on using the total costs to patient charge ratio is approximately $12 million.

12. **In the attached spreadsheet, please review the measures of financial health that we have calculated for your hospital. We have included the measure definitions. Confirm that these calculated values reflect your understanding. If your financial measures differ from our calculations, please review our formulas. Provide your calculations, and explain why you believe your calculation is a better measure of your organization.**

Most of the calculations are correct except the Days in AR calculation. The formula you are using is adding the allowances from the gross AR and should be subtracting it.

Days in patient account receivables	*FY23 Approved Budget*	*FY23 Actuals*	*FY24 Approved Budget*	*FY24 Projected*	*FY25 Submitted Budget*
AR	45,585,468	53,796,764	62,756,328	63,775,050	65,812,210
less allowance	(30,143,917)	(36,125,754)	(43,803,917)	(44,642,535)	(46,069,547)
Net AR	15,441,551	17,671,010	18,952,411	19,132,515	19,742,663
NPSR	151,642,851	155,588,663	172,933,754	174,584,197	180,151,796
	365	365	365	365	365
	415,460	426,270	473,791	478,313	493,567
Days in patient account receivables	**37.17**	**41.45**	**40.00**	**40.00**	**40.00**

The average age of plant calculation you have is technically correct but is distorted due to all plant assets being revalued as part of the Dartmouth Affiliation. That calculation without the one-time revaluation adjustment is below.

Average Age of Plant	*FY23 Actuals*	*FY24 Approved Budget*	*FY24 Projected*	*FY25 Submitted Budget*
Accum Depr-posted	(70,053)	137,080,346	5,943,622	13,050,233
DH one time valuation adj	**126,752,315**	**-**	**126,752,315**	**126,752,315**
Depr Expense	5,983,457	7,921,480	6,516,464	7,575,816
Restated Avg Age of Plant	**21.2**	17.3	**20.4**	**18.5**

13. Explain and quantify any service-line closures, transfers, or additions since the prior year budget review.

SVMC has not had any service-line closures, transfers or additions since last year's budget review.

GMCB Hearing Follow-up Questions

1. In trying to reduce the number of transfers through initiatives and partnerships with DH - how do you track this?
- **Approximately 30% of the time we can't offer the service needed - we track inpatient transfers with SVMC - it's an internal document that can be shared.**

We have a standard process that we direct outside hospitals to follow when inquiring about a transfer to our facility. The process is followed no matter where the transferring hospital is located, including hospitals within the Dartmouth Health System and those outside of the system in Vermont, New York, or Massachusetts.

a. We ask that the transferring hospital call the Dartmouth Health Transfer Center. Our website provides the same instruction under the header/link "Transferring Patients to SVMC" (https://svhealthcare.org/Transferring-Patients-to-SVMC), stating,

"The first step is to call the Dartmouth Health (DH) Capacity Coordination Center at 877-999-9870. You will speak with a staff member who will consider options for your patient. You may then be connected with an SVMC Administrative House Supervisor."

b. We list on our website services available at SVMC (e.g., ICU, OBGYN, General Surgery) and those that are not (e.g., ENT, interventional radiology, neurosurgery).

c. The SVMC House Supervisor has a telephone call - the goal is less than 20 minutes from request - with the Dartmouth Health Transfer Center and transferring hospital/physician on a joint phone call. The House Supervisor coordinates with the appropriate SVMC physician (e.g., surgery, orthopedics, Hospitalist) and inpatient unit to determine whether we have the capacity and appropriate services to accept the patient.

d. The House Supervisor records the information on a standard template, including whether we accepted the patient. Each morning at the interdepartmental safety huddle, we discuss transfer requests that occurred over the past 24 hours. The records are stored and compiled in a spreadsheet for review.

   We review the spreadsheet monthly at the Executive Management meeting to identify areas of opportunity

2. Can you supply us with the data sources used for the cost comparison when comparing SVMC to capital area hospitals, as well hospitals in the state.
   a. Note - in RAND it does appear that Outpatient is higher - it's helpful to understand how you're comparing.

SVMC used the data from the National Academy for State Health Policy (NASHP) for the cost comparison. The chart below was created from a download of that data to provide comparison to our regional and capital area hospitals. As the chart shows, SVMC is the lowest from a net revenue and operating cost perspective.

National Academy for State Health Policy (NASHP) Data		
Hospital Name	***Net Patient Revenue per Adjusted Discharge***	***Hospital Operating Costs per Adjusted Discharge***
DARTMOUTH HITCHCOCK MEDICAL CENTER	$ 28,184	$ 24,833
ALBANY MEDICAL CENTER HOSPITAL	$ 21,025	$ 19,375
RUTLAND REGIONAL MEDICAL CENTER	$ 16,302	$ 14,415
BRATTLEBORO MEMORIAL HOSPITAL	$ 13,391	$ 13,643
BERKSHIRE MEDICAL CENTER	$ 12,802	$ 11,912
ST. PETERS HOSPITAL	$ 12,443	$ 10,418
SOUTHWESTERN VERMONT MEDICAL CENTER	$ 10,061	$ 9,478

The RAND presentation slide referenced above that compares relative price for outpatient services as a % of Medicare may appear higher because SVMC Medicare rates are lower than the hospitals in the compare group. Management is still processing the RAND data to get a better understanding of the underlying data.

3. **If there are any targets for 2025 from the THRIVE program that aren't already baked into 2024 that you are hoping to achieve - please send those over.**

   All of the current FY2024 THRIVE program initiatives are baked into the FY2025 budget. However, the program is ongoing and management is continually trying identify initiative where ever possible.