



September 12, 2017

Mr. Kevin Mullin, Chairperson
Green Mountain Care Board
89 Main Street, 3rd Floor, City Center
Montpelier, VT 05620

Dear Mr. Mullin:

During the September 7, 2017 meeting of the Green Mountain Care Board (GMCB) Northeastern Vermont Regional Hospital (NVRH) was asked to work with GMCB staff on a methodology to rebase fiscal year 2017 net patient revenue (NPR.) At the August 15, 2017 budget hearing and during recent telephone conversations with GMCB staff NVRH was asked to reconsider our fiscal 2018 requested 4.25% rate increase. Both of these requests will be addressed in this document. A revised fiscal 2018 Statement of Income and Expenses is also provided herein.

NET PATIENT REVENUE REBASE

The reason for rebasing NPR is the need to account for the net patient revenue increase above “normal” growth at NVRH resulting from Vermont patients that previous to fiscal 2016 received orthopedic and urology services at NH facilities. Prior to July 1, 2105 NVRH did not have an adequate number of orthopedic or urology providers to meet the community’s need. Patients seeking timely access to orthopedic and urology services did so at NH facilities. In July 2015 NVRH hired a third orthopedic surgeon and a full-time urologist was hired in October 2015. The community quickly became aware timely access to orthopedic and urology services was available locally and stopped going to NH. As a result of the additional revenue from this “clawing back” of patients from NH hospitals NVRH is unable to stay within NPR caps established by the GMCB. For example, NVRH exceeded the fiscal year 2016 NPR cap by \$3.5 million, will exceed approved fiscal year 2017 NPR by \$4.7 million and is budgeting to exceed the fiscal year 2018 NPR cap by \$5.4 million. Table 1 illustrates the increase in NPR from fiscal 2015 to fiscal 2017 projected and fiscal 2018 budget.

TABLE 1

| Service | FY 2015 NPR(*) | FY 2017 Projected | FY 2018 Budget NPR | FY 15 to FY 17 Projected | FY 15 to FY 18 Budget |
|-------------|-------------------|----------------------|-----------------------|-----------------------------|--------------------------|
| Orthopedics | \$7,200,000 | \$11,900,000 | \$12,500,000 | \$4,700,000 | \$5,300,000 |
| Urology | \$ 206,000 | \$ 1,307,000 | \$ 1,346,000 | \$1,101,000 | \$1,140,000 |
| Total | \$7,406,000 | \$13,207,000 | \$13,846,000 | \$5,801,000 | \$6,440,000 |

(*) Excluding \$400,000 of NPR for third orthopedic surgeon in fiscal 2015

It is our firm belief and working assumption that all of the NPR growth for orthopedic and urology services is due to bringing patients back to NVRH from NH hospitals. Our assumption is based on limited

empirical evidence and a great deal of anecdotal evidence. VHCURES data for fiscal 2010 through 2014 showed that orthopedic patients in NVRH's service area with commercial insurance spent \$10 million at NH hospitals. Because VHCURES only collected data on commercial insured payments the actual amount of NPR lost to NH hospitals was significantly higher. In and around the community we no longer hear the incessant message from the community that they must travel elsewhere for care due to lack of adequate orthopedic and urology coverage at NVRH. We now hear incessant messages about how wonderful the team of orthopedic surgeon providers and urologist are here at NVRH.

Beginning with our fiscal year 2015 budget presentation NVRH has described the potential impact on NPR that might result from bringing a third orthopedic surgeon to the community. Our budget presentations for fiscal years 2016, 2017 and 2018 described the actual jump in NPR from having a third orthopedic surgeon. Our fiscal year 2016 budget also highlighted the NPR increase from having a full-time urologist. The GMCB budget orders for 2016 and 2017 acknowledged our NPR growth from adding providers to meet the community's need.

In our fiscal year 2017 budget submission narrative NVRH requested a rebasing of approved fiscal year 2016 to account for the known and anticipated NPR growth. Based on discussions between the GMCB members and GMCB staff at the September 7th meeting it appears the point has been reached where we all agree NPR rebasing is appropriate.

Table 2 summarizes one option for rebasing NPR beginning in fiscal 2016, which is the year patients started returning to NVRH from NH facilities. In summary, the total orthopedic and urology revenue increase shown in Table 1 is built into the 2016 NPR base and trended forward to fiscal 2017 and again to fiscal 2018. On September 12, 2017 this approach for rebasing fiscal year 2017 NPR was discussed with GMCB staff and they supported the methodology.

TABLE 2

| Description | Amount |
|--|---------------------|
| Approved fiscal 2016 NPR | \$68,095,300 |
| Rebase Amount | 6,440,000 |
| Revised approved fiscal 2016 NPR | \$74,535,300 |
| Fiscal 2016 to 2017 allowed growth 3.4% | 2,534,200 |
| Revised approved fiscal 2017 NPR | \$77,069,500 |
| Fiscal 2017 to fiscal 2018 allowed growth 3.4% | 2,620,400 |
| Revised approved fiscal 2018 NPR | \$79,689,900 |

RECONSIDERATION OF RATE INCREASE REQUEST

During our August 15th budget presentation and again during recent discussions with GMCB staff, NVRH was asked to reduce the requested 4.25% rate increase to 3.2%, as stipulated in the GMCB's fiscal 2016 budget order dated April 28, 2017. NVRH will agree to reduce our requested rate increase from 4.25% to 3.2%.

REVISED STATEMENT OF INCOME AND EXPENSE

Table 3 presents a revised Statement of Income and Expense for fiscal 2018. Changes that have been built into this updated version include:

- Net patient revenue reduction of \$377,000 for revising the rate increase request from 4.25% to 3.2%
- Net patient revenue reduction of \$190,100 for revised Disproportionate Share Revenue allocation to NVRH. The actual DSH distribution for fiscal 2018 wasn't known until after budgets were filed.
- Operating expense reductions totaling \$567,100 to offset NPR reductions and maintain operating margin of \$1,450,000 (1.8%).

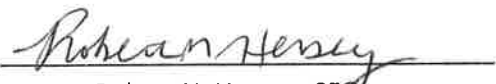
TABLE 3

| Description | FY 18 As Filed | Adjustments | FY 18 Revised |
|---------------------------------|----------------|-------------|---------------|
| Net Patient Care Revenue | \$79,385,200 | (\$567,100) | \$78,818,100 |
| Other Operating Revenue | \$1,550,000 | 0 | \$ 1,550,000 |
| Total Operating Revenue | \$80,935,200 | (\$567,100) | \$80,368,100 |
| Total Operating Expense | \$79,485,200 | (\$567,100) | \$78,918,100 |
| Net Operating Income | \$ 1,450,000 | 0 | \$ 1,450,000 |
| Non-Operating Revenue | 0 | 0 | 0 |
| Excess of Revenue Over Expenses | \$ 1,450,000 | 0 | \$ 1,450,000 |

We have challenged ourselves to maintain the original budgeted operating margin despite the loss of \$567,100 of operating revenue.

I look forward to an opportunity to further discuss the proposed methodology to rebase fiscal year 2017 net patient revenue, our revised rate increase request and the revised summary Statement of Revenue and Expense for fiscal year 2018.

Sincerely,


Robert N. Hersey, CFO

CC: Paul Bengtson, CEO
Andy Pallito, Director of Health Systems Finance