Southwestern Vermont HEALTH CARE
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September 13, 2017

Andy Pallito, Director of Health Systems Finance
Green Mountain Care Board
3rd Floor City Center
89 Main Street
Montpelier, Vermont 05260-3601

Dear Mr. Pallito,

Over the past week or so Southwestern Vermont Medical Center (hereafter "SVMC") management has re-evaluated its FY 2018 budget submission. The team has examined all its assumptions, programs, Health Reform Initiatives, as well as contemplating the risk model with OneCare Vermont.

On Thursday, September 7th SVMC received the following request "the Green Mountain Care Board would like SVMC to further address in-state vs. out-of-state business to bring the Vermont share to NPSR to 3.4%. This could include reducing the Health Reform Investments."

Background -- Out of State Revenues

SVMC has seen out-of-state Massachusetts revenues increase over the past years due to North Adams Regional Hospital closing in March of 2014. As well as primary care providers leaving the Massachusetts market. In January 2017 three physicians from a successful orthopedic practice joined the SVMC Medical Staff from Northwestern Massachusetts. This left the region without orthopedic coverage. The physicians were located 18 miles from SVMC. They joined SVMC with the main goal of reversing the out migration of orthopedic services leaving Bennington.

A benefit of having this practice at SVMC has been the Massachusetts orthopedic volumes coming to SVMC as well as other services. In addition, SVMC's Pownal Primary Care site (one mile from the Massachusetts border) has seen increases in visits and patients. It is worth noting that recently in Williamstown Massachusetts a same day clinic was closed. On the following page is a table demonstrating the growth in Net Patient Service Revenues (hereafter "NPSR").

The out-of-state Massachusetts NPSR are as follows for FY 2014 to FY 2018 budget:

	NPSR	***% change***
FY 2014 (A)	$4,950,000	-
FY 2015 (A)	6,250,000	26%
FY 2016 (A)	7,904,000	26%
FY 2017 (P)	10,100,000	27%
FY 2018 (B)	10,800,000	7%

(A) - Actual cash collected (NPSR)
(P) - Projected FY 2017 (projection was prepared in May will be a proxy for the FY 2017 budget)
(B) - Massachusetts revenues in FY 2018 budget.

It is worth noting that in the FY 2017 budget process SVMC did not focus on where (location) the increases in revenues would come from, the management team focused on the tradition service types and payer mix. In the FY 2018 budget process service types, payer mix and location were all considered due to changes in the service area. Since SVMC's FY 2017 actual NPSR is close to budget the projected out-of-state revenues will be used as the FY 2017 budget proxy. This will be discussed further in this letter.

In March of 2017, Glens Falls Hospital closed its primary care health center in Hoosick Falls, New York, 12 miles from SVMC. This health center served over 7,000 residents. While some of those residents did utilize SVMC a significant number of patients did seek services at Glens Falls Hospital or outside the region In April, several local physicians and providers re-opened the health center on the closed site, with the assistance of Dartmouth Hitchcock and SVMC. These physicians are physicians on SVMC's medical staff and will refer patients to SVMC unlike the previous providers.

The New York State volumes have always been a significant part of SVMC NPSR. Averaging approximately 20% annually.

The New York State NPSR are as follows for FY 2014 to FY 2018 budget;

	NPSR	***% of change***
FY 2014 (A)	$27,700,000	-
FY 2015 (A)	27,175,000	(1.9)%
FY 2016 (A)	30,404,000	11.9%
FY 2017 (P)	31,982,000	5.2%
FY 2018 (B)	33,324,000	4.2%

(A) - Actual cash collected (NPSR)
(P) - Projected FY 2017 (projection was prepared in May will be a proxy from the FY 2017 budget)
(B) – New York revenues <u>attributed</u> in FY 2018 budget.

Other out-of-state, non-Massachusetts and non-New York State residents have remained constant at approximately $2 million per year.

<u>Health Reform Initiatives</u>

Management evaluated the Health Care Reform Initiatives listed by management. As mentioned in many of SVMC documents Health Reform has to be a culture in an organization not just limited to initiatives. However, management examined the new initiatives listed here are SVMC's thoughts on each.

- ACO dues – may be eliminated if SVMC does not take risk. Management is making its recommendation to The Board of Trustees on September 22, 2017;

- Associate Providers – access to primary care is a state wide ACO initiative. It is also one of SVMC's initiatives, identified in its community needs assessment. Offers to providers are pending and other providers have been hired. Initiative has to continue;

- Telemedicine – Contracts have been signed and expenses are being incurred for Telemedicine in the ED and ICU and primary care. This will allow improved access and quality for the patients. Initiative has to continue;

- Scribes – Expenses are being incurred. Contract termination may be considered;

- Mental health and drug addiction programs – contracts are signed and the programs unbudgeted in FY 2017 have already started.

The "new" health reform initiatives are operating expense items. They are not a direct NPSR component. If SVMC's NPSR is reduced management will need to continue to evaluate them, especially the ACO dues and consider action of the risk model.

<u>Management's Proposal</u>

SVMC's location and service area covers three states. In both the Massachusetts and New York State portions of our service area have undergone change over the past years that has increased NPSR to SVMC. SVMC does not control what is occurring in these areas. The table below combines Massachusetts and New York State NPSR from FY 2014 to FY 2018.

	Out-of-state Revenues	**Annual Increase**	**% of change**
FY 2014 (A)	$32,650,000		-
FY 2015 (A)	33,425,000	$775,000	2.4%
FY 2016 (A)	38,308,000	4,883,000	14.6%
FY 2017 (P)	42,082,000	3,774,000	9.9%
FY 2018 (B)	44,224,000	2,142,000	5.1%

The patient volumes from Massachusetts and New York have greater contribution margins than the total Medical Centers contribution margin since the "commercial payer mix" is 59% and 54%; Massachusetts and New York, respectively. Vermont's commercial payer mix is 47%. It is well documented the commercial payer's contribution margins are greater than Governmental payers. Having greater contribution margins from out-of-state volumes reduces the cost of care for Vermonters.

Management is proposing the FY 2018 increase of $2,142,000 in out-of-state revenues be removed from SVMC NPSR when it is being evaluated against the 3.4% NPSR revenue increase limitation. As demonstrated through SVMC discussions, presentation, and reality of the situation. SVMC does not exercise much control over Massachusetts and New York State share of our service area.

Management would propose eliminating $2,142,000. This amount is calculated by taking the <u>projected</u> FY 2017 out-of-state revenues less the <u>budgeted</u> out-of-state budgeted FY 2018 revenues. In the FY 2017 budget process (April – June 2016) SVMC did <u>not</u> anticipate out-of-state revenues would increase at current levels. Management would have budgeted in the 3% to 4% range of the out-of-state increase, not the 9.9% incurred. As previously mentioned the impact and documented increases were not focused on in FY 2017 budget preparation. If we would have used a 5% increase in the FY 2017 budget for out-of-state the FY 2017 budget to FY 2018 budget increase would be nearly $4,000,000 of the $7,135,244 increase in NPSR. Reducing FY 2018 increase to $3,135,244 or a 2.1%.

If the $2,142,000 is eliminated from consideration then the NPSR increase would be 3.3%. The table below shows this calculation.

	FY 2017 Budget	***FY 2018 Budget***	***Difference***	***%***
NPSR	$152,362,260	$159,497,504	$7,135,244	4.7%
Eliminate MA and NY NPSR *increase*	-	(2,142,000)	(2,142,000)	-
	$152,362,260	***$157,355,504***	***$4,993,244***	***3.3%***

<u>Conclusion</u>

SVMC is proposing to have the increase in out-of-state revenues as calculated to be removed from SVMC's NPSR budget for the evaluation of the 3.4% threshold. SVMC as part of its monthly reporting to the GMCB out-of-state revenues will be provided. Additionally, management is developing financial models to determine costs and profitability of out-of-state volumes.

I am available to discuss this at your earliest convenience.

Sincerely,

Stephen D. Majetich
Vice President, Finance-CFO
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