Northwestern Medical Center, Inc.
Response to GMCB 2018 Budget Guidance
Issues to Consider

We would like to thank you for the opportunity to continue the dialogue on our 2018 budget submission. We clearly recognize the difficult task that the board has to reconcile the budget submissions in a fair and equitable manner. We have prided ourselves in being a trusted partner of the board and having a transparent relationship at all times. We recognize that our budget submission is a difficult one to reconcile. We have taken painstaking care to look at this budget in a way that ensures we are doing what is best to meet our community's needs while being responsive to the budget guidance to ultimately reduce costs.

Clearly over the last several years we have had growth that has exceeded guidance. This growth has been in services that are critical to meeting the community needs assessment for our service area. It has been intentionally focused on those things that will be critical to our success in lowering the cost of health care in the future. These services are key to wellness and prevention in the outpatient setting to promote optimal health in the least costly environment. Our cash grew along with these investments until we reached the right level of service stabilizing access. This money has allowed us to invest wisely. We have been a leader in the state in primary prevention through our significant investment in the transformation of health care, through Rise VT and other programs that will lead us from fee for service to capitation. The investments we have made in key services over the last several years will be critical to our success under a capitated environment. Previous rate reductions and lower volumes have greatly impacted our revenues and now our bottom line. We are at a different place now where we need to stop and assess.

Below is a list of some key factors as you review our submissions:

- Changing budget assumptions from a 6% rate increase to a (1.1%) rate decrease would result in a reduction of Net Patient Revenue of ($3,586,598).
- This change would result in a net operating (loss) of ($1,355,069).
- We knew that the methodology for setting the 2016 required payback back in April would be very challenging for us. Despite our request for a 2.9% rate increase for 2017 the board ordered us to implement a 0% rate increase. Although we were disappointed with the board's decision on top of an already 8% rate reduction the year prior, we accepted it and began to adjust our operations accordingly. When discussions began about dealing with the 2016 net patient revenue variances the board decided to use 2017 rate adjustments as the starting point for the adjustment significantly effecting our organization based on the 0% increase that was ordered.
- 2017 continues to be a difficult year as we demonstrated in our presentation and narrative. We are running significantly lower than our budgeted net patient revenue and will most likely finish the year with a loss from operations for the first time in many years. Our volumes are down.

The right things are happening. We believe this should be considered as coverage of our $685,000 2016 required payback.

- As you know our prior financial success allowed our organization to borrow funds for our Master Facility Plan and refinance existing debt at a significant savings to the health care system. Our debt was financed at a fixed rate of 1.92% an unheard of financing rate.
- This change would jeopardize the organizations ability to support the $33 Million Master Facility Plan that will be fully online as of the first quarter of 2018. In order to continue to meet our obligations and meet creditor requirements this organization must maintain a reasonable operating margin.
- Although this organization has had significant growth in net patient revenue over the years it has all been based on providing access to important services to our community. The services we have grown have been based on our community needs assessment and are services that should be provided by its local community hospital. We are not bringing on tertiary type of services that should go to the academic medical center. The services such as Ophthalmology, Dermatology, Comprehensive Pain & Addiction, and Pediatrics, to name a few, are services that are critical to the future of population health.

Again we recognize the challenging environment that we are all working under. We truly appreciate the pressures to reduce the cost of health care across the state and we are reducing costs, and have a 2018 budget that challenges us to hit aggressive cost saving targets. As you know we have been proactively preparing for this for many years. We developed a Master Facility Plan approved by the Board that highlighted the important shift from costly Inpatient care to appropriate less costly Outpatient settings. We have built programs like Rise VT, Lifestyle Medicine and Healthy U specifically to be a leader in healthcare transformation. RiseVT is going statewide. We are a leader in payment reform with our participation in Vermont Medicaid Next Gen and planned participation in the All Payor Expansion of that program in 2018. We are taking risk. We need to continue on this path and we need your support to allow us the flexibility and support to continue our transformation from a Hospital to a Healthcare Community.