Northeastern Vermont Regional Hospital

August 30, 2017

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

Dear Mr. Mullin:

Northeastern Vermont Regional Hospital was asked by the Green Mountain Care Board (GMCB) to provide new budget 2018 results using two new assumptions. Specifically, we were asked to provide the following:

- An amended budget incorporating a 3.4% growth in net patient revenue (NPR) and explain how this change would affect other key financial ratios
- An amended budget incorporating the Board's April 2017 budget order, which is to limit the requested rate increase to 3.2%, and explain how this change will affect other key financial ratios

Attachment I is an amended Statement of Revenue and Expense that incorporates the 3.4% growth in net patient revenue. Attachment II is an amended Balance Sheet that also incorporates the 3.4% growth in net patient revenue.

Attachment III is an amended Statement of Revenue and Expense that incorporates the Board's April 2017 budget order of a 3.2% rate increase. Attachment IV is an amended Balance Sheet that also incorporates the 3.2% rate increase.

Table 1 summarizes key financial ratios under three different assumptions:

- Approval of the as-filed fiscal 2018 budget
- The as-filed fiscal 2018 budget as amended for 3.4% NPR growth
- The as-filed fiscal 2018 budget as amended for a 3.2% rate increase

TABLE 1

Ratio	As-Filed 2018	3.4% Growth	3.2% Rate Increase
Operating Margin %	1.8%	(5.5%)	1.3%
Days Cash on Hand	115.1	89.4	113.5
Cash to Long term debt	1.43	1.11	1.41
Debt Service Coverage Ratio	3.7	(.4)	3.5
Long term debt to capitalization	29.0%	32.0%	29.1%

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Explanation of Effect of Changes on Financial Ratios:

In brief, the adverse effects of changes in the financial ratios from the NVRH's submitted 11.28% increase in NPR are inequitable to the geographic region that it serves, and threaten irreparable harm to both NVRH and the Northeast Kingdom public, for which money appropriated in future budget years cannot remedy.

During our August 15th budget presentation, representatives from NVRH presented reasons why the budget submitted is the appropriate and most responsible approach to meet the specific and immediate community and our service area needs for essential services with the least amount of resources. Limiting growth to 3.4% would reduce net patient revenue by $5,600,000, result in an operating deficit of nearly $4,200,000, and irreparably harm NVRH, its ability to provide services, and the Vermonters it serves.

Table 1 shows the effect of limiting growth to 3.4% on our financial ratios including, an Operating Margin of negative 5.5%, a 23% decline in Days Cash on Hand and Debt Service Coverage Ratio (DSCR) of negative .4%. The negative DSCR violates the financial covenants of our 2016 Series A bond issue putting the hospital in technical default. In summary, as shown in Table 1, limiting growth to 3.4% would have a devastating effect on our financial ratios. A financial turnaround to recover from the devastation, if possible, would take several years. The harm here is much more than dollars. Over the next few years, the Northeast Kingdom will be left without essential health care services.

It cannot be disputed that limiting growth to 3.4% would do irreparable harm to NVRH. Specifically, the results of a 3.4% growth limit would:

- Send Vermont healthcare dollars for patients in the St. Johnsbury service area requiring orthopedic, urologic, neurologic, pain management and other services back to New Hampshire hospitals. Over the past two years NVRH has been very successful in improving timely access to these and other essential health services. Previously, when timely access wasn't available, patients with access to transportation traveled to NH facilities to receive care. However others in this economically challenged region who were without transportation either faced long delays or received no care. VHCUREs data for a very limited population revealed over $10,000,000 of VT health care dollars flowed to NH for services received by patients in NVRH's primary service are, for orthopedics alone! Limiting growth to 3.4% would reduce access and the community would revert to going back to NH facilities for essential services.
- Gut most every program NVRH has established to improve the health of the population we serve. For at least the last decade, NVRH has been a leader, locally, regionally and nationally in health care reform programs. Participating in the Blueprint Pilot Project is the first example of NVRH's leadership during that time period. NVRH and the St Johnsbury community was one of the first in the nation to participate in that Pilot, which led to NCQA Certified Medical Homes here and throughout the country. While the NCQA Certified Medical Homes would continue under the 3.4% limit scenario some of the community health improvement/population management programs that would not survive or would be significantly scaled back include:

- The NVRH Community Connections Team
- The Ambulatory Pharmacist
- Recent expansion of our Palliative Care service
- Support for the Kingdom Recovery Center
- Annual funding of community health programs
- Our leadership of and participation in the Caledonia and S. Essex Accountable Health Community
- Use of dedicated Care Manager in the Emergency Department

Lastly, NVRH would be in an extremely vulnerable financial position as we enter into Next-Gen and other risk-based payment programs.

In summary, limiting growth to 3.4% would debilitate NVRH, cause the hospital irreparable harm and significantly weaken our financial health.

Further, limiting the rate increase to 3.2% would be a mistake, as the submitted average rate increase of 4.25%included only those resources that allow us to meet the community's need for essential health care services. Table 1 illustrates our financial ratios, and therefore financial health, would be weakened under the 3.2% rate increase scenario, as the operating margin is reduced to a mere 1.3%.

Fiscal Year 2019:
NVRH was also asked to provide an estimated fiscal 2019 budget that incorporates expected utilization increases from the as-filed fiscal 2018 levels. Attachment V is an "as is" projection for fiscal year 2019. Attachment VI presents an "as is" Balance Sheet for 2019.

A key assumption for this projection is utilization increases, especially volume related to bringing patients back from NH facilities will slow down greatly, if not cease altogether. As Dr. Prohaska indicated during our August 15th budget presentation the leakage to NH facilities for orthopedics seems to have abated.

Other Considerations:
The fiscal 2019 projections are labeled "as is" because changes in healthcare are ongoing and unpredictable. New developments that may affect the fiscal 2019 projections, and to a lesser extent, change the fiscal 2018 budget projections include:

- Transfer of revenue for Cardiologist services from Central Vermont Medical Center to NVRH. Would add up to $400,000 of new revenue and expense for NVRH
- Additional net patient revenue and expenses totaling $150,000 for a soon to be employed part time psychiatrist
- New Tele-ICU service that would keep patients in their community hospital rather than being transferred to DHMC or less frequently, UVMMC. The Tele-ICU service would add net revenue to NVRH but reduce revenue at other facilities. Initial projections are for the service to break-even, adding $125,000 to revenues and expenses.

NVRH was also asked to submit details on our new health care reform investments. Attachment VII provides the requested information.

We look forward an opportunity to further discuss the information contained in this response to the GMCB requests related to NVRH's fiscal 2018 budget submission . We hereby respectfully reaffirm and renew our request for a 11.28% net patient revenue increase, and a 4.25% rate increase for our fiscal 2018 budget.

Sincerely,

8/30/2017

Paul R. Bengtson, CEO

Robert N. Hersey, CFO