SPRINGFIELD HOSPITAL

August 17, 2017

Director of Health System Finance

Dear Mr. Pallito,

Below please find our responses to the questions posed in your analysis of our 2018 Budget.

Question #1 – Corporate structure

Due to the turnover in the GMCB this will be one of the focuses of our presentation.

The FQHC is a component of Springfield Medical Care Systems Inc (SMCS). SMCS is also the parent corporation of Springfield Hospital and the psychiatric unit (DPU) is a department of Springfield Hospital and has been for over twenty years. The current model that we operate under has been in existence for approximately eight years.

An FQHC offers several advantages for primary care. For example, malpractice insurance is provided by the Federal Government at no cost, there is some enhancement to reimbursement and of course the annual grant funding. We have been able to expand services greatly: two dental practices, mental health providers in each clinic, walk in care at four sites etc.

This model allows the hospital and FQHC to coordinate care in a fairly seamless manner. Anyone presenting in our Emergency Department without a Primary Care Provider (PCP) leaves with a PCP referral. In addition, when a patient is discharged from our Inpatient Unit they have a PCP appointment set up (if needed) within three days of discharge.

Question #2 – ACO involvement – health care reform

We believe that due to our model and efforts we are far ahead of the rest of the state in health care reform. We are tentatively participating with the payment reform group and associated ACO (One Care). We also have been participating with CHAC for the last few years.

Question #3 – Utilization – Adjusted Admissions

Adjusted admissions is based on a calculation that is only accurate if the inpatient revenue per admission is fairly flat year to year. In our case inpatient revenue is down substantially for FY17 due to a drop in Length of Stay (LOS). If Outpatient revenue drops less or remains flat the calculation will return a result that indicates adjusted admissions are growing. This is purely a function of the math involved and not a true indication of volume. We have replaced an orthopedic surgeon that we lost over a year ago and are predicting that there will be growth in the areas indicated, including admissions for some ortho cases.

Question #4 – Perioperative volume
The lack of growth in perioperative services is mainly due to the lack of an Orthopedic surgeon for approximately nineteen months.

Question #5 – Rate & NPR

When building our budget we first project volume and turn that into gross revenue, we then calculate total expenses, see what the gap is between NPSR with no rate increase and expenses. We take another look at expenses and make cuts when we can without impacting patient care. We then calculate what the rate increase needs to be to perform our mission. This year we also had to adjust for the unexpected 50% cut is DSH. We had allowed for a 25% cut initially.

Question #6 – NPR Payer

We anticipate a slight increase in reimbursement from Medicare due to cost report adjustments once the report is file for FY17. Medicaid reimbursement increase is due to changes in payer mix.

Question #7 – NPR Payer

Budget to actual there was a fairly substantial decrease in Medicare reimbursement for FY17 due to the FY16 cost report. LOS has had a big impact on reimbursement.

Question #8 – NRP Payer

The increase in Medicaid reimbursement is due to the increase in Medicaid patients (payer mix)

Question #9 – Income Statement

We projected current year investment results and then backed those results down to come up with the estimate for FY18

Question #10 – Balance Sheet

No debt reductions we funded with any Board designated funds. We did refinance all our debt in December of 2016 including our bond.

Question #11 – NARR

Please see the answers to questions 1 and 2.

Question #12 – NARR

We do not operate a retail pharmacy in the hospital, we do buy some drugs through the 340B program for outpatient departments use however this has volume has dropped significantly once there was a ruling against orphan drugs.
Question #13

Volume is still valid, NPSR may change once we complete an interim cost report and determine where this year will settle out with Medicare.

Question #14 – Act 53

Will do.

Question #15 – Health care reform

Support for the ACO programs – see answers #1 and 2

Population Health Initiatives – CHNA survey results were all related to primary care – mental health, dentistry and obesity. We address all of these in the FQHC.

All-payer Model – We are participating in meetings with One Care and expect to meet all requirements of the model in both the hospital and FQHC

Question #16 – ACO Participation - Quality

We are and have been a member of the CHAC ACO and are in discussions with One Care regarding full participation in that ACO. The impact on the hospital is fairly minimal when considering the admin costs charged to the hospital and the enhanced reimbursement. The maximum risk to the hospital would be $2 million and this has not been built into our budget as we have not agreed to anything. The chances of incurring the full amount of the risk is very low and there are efforts to acquire insurance to mitigate some of that risk.

SMCS provides measurable cost effective quality care for all of our patients regardless of association with CHAC, or the OneCare network. SMCS has a long demonstrable history of commitment to best practice in our outpatient and inpatient services. We believe that only when we can measure quality can we have a conversation and improve that care. SMCS employs nationally and state accepted quality measures throughout our system. Quality measures are reviewed regularly and feedback is provided to all providers. Where indicated standardized protocols and tools are established to replicate and establish best practices that are based upon national research and recommendations.

Sincerely,

Scott Whittemore CPA
Chief Financial Officer
1. NARR - Discuss the unique corporate structure of Springfield that has the FQHC as the parent. Describe the genesis for this and what it hopes to accomplish. Describe how the distinct part psychiatric unit fits in to this model.

2. NARR - Discuss the status of your ACO involvement and your plans for meeting health care reform changes.

3. INCOME STATEMENT - The hospital is $1.5 million under the 2017 budget levels. Both expenditures and NPR show growth under 1.5%. However, utilization as measured by adjusted admissions is increasing 6% and acute admissions, operating procedures, and physician visits show growth. Ancillary services show many reductions. Explain what is happening with utilization. Describe the reasons for the loss of 2 physicians in 2018.

4. NARR - Discuss the circumstances behind why the hospital has not seen the growth planned for perioperative service. How will this affect patient care?

5. RATE&NPR - Springfield has a rate/price request of 6.5%. The rate is shown mainly in Commercial and is needed to meet their operating expenses, establish an operating margin of 1.7%, and to cover the disproportionate share reduction. Describe the strategies and rationale the hospital used for establishing this level. Were pricing for services a consideration in establishing this level?

6. NPR PAYER - The hospital also expects to achieve NPR rate growth from Medicare and Medicaid. What are the assumptions used to estimate rate growth increase from these payers?

7. NPR PAYER - Medicare shows unfavorable reimbursement of $3.6 million in 2018. Discuss the assumptions you are making for this payer.

8. NPR PAYER - Medicaid shows favorable reimbursement from 2017 to 2018 budget. Describe the reimbursement assumptions the hospital has made. Also, describe the increase expected in Medicaid utilization.

9. INCOME STATEMENT - Discuss the budget assumption that you will increase investment income over $500,000 in 2018. What is the basis for this estimate?
10. BALANCE SHEET - The hospital shows a reduction in long term debt that may have been funded with Board designated funds that are quite low compared to most hospitals. Explain these changes.

11. NARR - Springfield is not requesting any health care reform investment allowance. Discuss how these funds are "embedded" in their operation as stated in the narrative.

12. NARR - Retail pharmacy (340B) is mentioned in the narrative but is not recorded in other operating revenue. Describe this program, explain where it is recorded and the risks involved operating the program.

13. INCOME STATEMENT - Are the 2017 projections still valid? If not, please describe material changes?

14. Refer to the Act 53 price and quality data schedules that were included in the presentation of FY 2018 Hospital Budget Submissions-Preliminary Review on July 27, 2017 and be prepared to address questions the Board may have concerning that information.

15. In the March 31 GMCB hospital guidance, the Board allowed up to 0.4% for new health care reform. The Board directed each hospital to provide a detailed description of each new health care reform activity, investment or initiative included within the designated 0.4%, provide any available data or evidence-based support for the activity’s effectiveness or value, and identify the benchmark or measure by which the hospital can determine that the activity reduces costs, improves health, and/or increases Vermonters’ access to health care. With this in mind, please describe how you are investing for new health care reform activities in the four approved areas:

   • Support for Accountable Care Organization (ACO) infrastructure or ACO programs;
   • Support of community infrastructure related to ACO programs;
   • Building capacity for, or implementation of, population health improvement activities identified in the Community Health Needs Assessment, with a preference for those activities connected with the population health measures outlined in the All-payer Model Agreement;
   • Support for programs designed to achieve the population health measures outlined in the All-payer Model Agreement.

16. Please identify which ACO(s) you will have a contractual relationship with in 2018. If your hospital plans (or already is) in a risk-bearing contract with OneCare, please explain the effect of the risk on your financial statements. Please explain specific strategies your hospital is developing to move toward population-based payment reform. Finally, what tools does your hospital employ to ensure appropriate, cost effective, quality care when working with providers outside the CHAC or OneCare network?