NMC FY2021 Budget Presentation:

Restoring NMC as a Sustainable Community Hospital

Green Mountain Care Board
August 28, 2020

NMC
Northwestern Medical Center

Introductions

- Thank you for this opportunity to speak with you.
- Presenting today:
  - Jerry Barbini, Interim Chief Executive Officer
  - Robyn Alvis, Chief Financial Officer
  - Stephanie Breault, Director of Finance
  - Deanna Orfanidis, Chief Nursing Officer
  - NMC Board Member(s)

Overview

- NMC is seeking the rate increase necessary to establish appropriate pricing for the services that we offer. We are asking to be in parity with our peers in order to remain financially stable. Every hospital in Vermont has their individual goals and must remain financially strong as we work together on the needs of the healthcare system. Even with this adjustment, NMC will continue to be below the average in pricing as we continue to strive to be a cost-effective provider.

- Net patient revenue is budgeted to decrease compared to the current year budget;

- Expenses are down $1.5 million compared to the current year budget (not including health care provider tax and the reclass of ACO dues), including nearly $1 million of inflation.

Overview

- NMC's budget complies with the benchmark established under GMCB Rule 3.202

"At its March 18, 2020 public meeting, the Board established a maximum NPR/FPP growth limit of 3.5% for FY21 (over each hospital's FY20 budget)." – FY 2021 ABBREVIATED HOSPITAL BUDGET GUIDANCE AND REPORTING REQUIREMENTS

NPR Growth Limit Compliance

Adjusted FY2020 Budget*	$	118,300,873
Net Service Line Transfers		(518,145)
Adjusted FY2020 Budget Base		117,782,728
3.5% Allowable Growth		4,122,395
FY2021 Net Patient Revenue Cap	$	121,905,123
FY2021 Requested Budget	$	116,693,229
Variance from Cap	$	(5,211,894)
% Change from FY2020 Budget		**-1.4%**

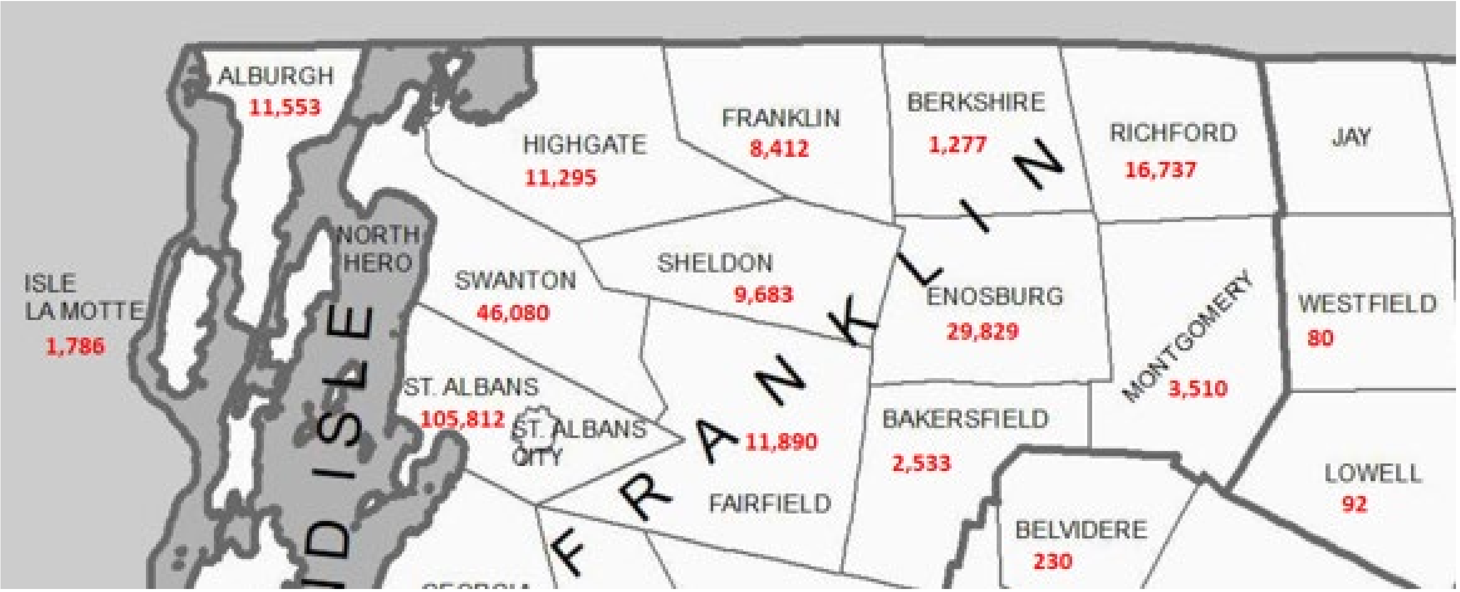
Budget FY2020 to Budget FY2021 Summary

	Adjusted FY2020 Budget*	**Changes**	**FY2021 Budget**
Operating Revenue			
Net Patient Revenue	118,300,873	(1,607,644)	116,693,229
Other Operating Revenue	5,213,346	260,526	5,473,872
Total Operating Revenue	123,514,219	(1,347,118)	122,167,101
Operating Expenses	123,762,506	(4,400,341)	119,362,165
Net Operating Income	(248,287)	3,053,223	2,804,936
Net Operating Margin	-0.20%	2.50%	2.30%

*OneCare Vermont Dues reflected as an expense in compliance with FY2021 budget instructions.

Vision

- NMC belongs in the community. Our service area is one of the few in VT that is growing, yet large portions are very rural and **44%** of patients currently served by NMC live north of St. Albans and many would drive one hour or more for care at the next closest hospital.



Vision Con't

- Community hospitals play a vital role in providing access to care in Vermont, even when those hospitals are adjacent to a tertiary care center.

- As a designated Sole Community Hospital, NMC brings value to our region. If NMC did not exist and the care provided here had to go elsewhere, Vermonters would pay significantly more.

Net Patient Revenue & Summary of Budget Request

FY'2020 Budgeted NPR	$116.926,579
ACO Dues Reclassification	$1,374,294
Total FY'2020 Baseline NPR	$118,300,873
Net Budget Changes	$-1,607,644
FY'2021 Budgeted NPR	$116,693,229

NMC's rate increase has 2 components:

- 25.37% increase on hospital-based services
- 0% increase on physician professional services

Results in an overall rate increase of 19.9% that will be applied to all payors

Profit and Loss & Balance Sheet

Profit and Loss

	2021 Budget
Net Patient Revenue	116,693,229
Other Operating Revenue	5,473,872
Total Operating Revenue	122,167,101
Total Operating Expenses	119,362,165
Net Income From Operations	2,804,936
Non-Operating Income	1,673,675
Net Income	4,478,611

Balance Sheet

	2021 Budget
Current Assets	62,002,265
Board Designated Assets	25,625,097
Other Assets	78,927,869
Total Assets	166,555,231
Current Liabilities	21,500,000
Risk Reserve for Fixed Reform Payments	1,600,000
Long Term Debt	26,743,328
Other Noncurrent Liabilities	3,200,000
Total Liabilities	53,043,328
Fund Balance	113,511,903
Total Liabilities and Fund Balance	166,555,231

Cash Flow Statement

CASH FLOW FROM OPERATING ACTIVITIES:	
Excess of Revenues and Gains Over Expenses	$4,478,611
Add items not requiring cash:	
Depreciation & Amortization	6,189,830
Net cash provided by operating activities	10,668,441
CASH FLOW PROVIDED BY (USED IN) INVESTING ACTIVITIES:	
Cash used to purchase property, plant and equipment	(14,750,000)
Net cash used in investing activities	(14,750,000)
CASH FLOW PROVIDED BY (USED IN) FINANCING ACTIVITIES:	
Repayment of debt	(1,566,415)
Net cash used in financing activities	(1,566,415)
NET CASH FLOW	(5,647,974)
BEGINNING CASH & INVESTMENTS OCTOBER 1, 2020	56,111,093
ENDING CASH & INVESTMENTS SEPTEMBER 30, 2021	$50,463,119

NMC will continually evaluate and reprioritize capital spending in FY2021 but cannot ignore infrastructure needs long term.

$7M for the approved ED renovation CON to be paid for using cash reserves (23 DCOH), not rate increase.

Service Line Adjustments

Investing in:

- Primary Care, Pediatrics, & OB/GYN - crucial to population health management and the Triple Aim
- Strengthening Intensive Care - preserving tertiary critical care beds for the most vulnerable
- Sleep Services within Pulmonology - to reduce impact of sleep apnea on chronic disease progression (pulmonary and cardiology)

Restructured:

- Lifestyle Medicine: integrated into Primary Care
- RiseVT: resized for sustainability and alignment with ACO

Transitioned to Community Partners:

- Northwestern Hope & Recovery
- Outpatient Neurology

Risks & Opportunities – Mid Year Request Update

Mid-Year Request

Description	Dollars	Rate Request
EMR Impact on Volumes	7,038,199	11.5%
Temporary Patient Care Staff	2,029,598	3.3%
Total (Annualized)	**9,067,797**	**14.9%**

EMR Impact Ruling: "If the volume is permanently lost, then expenses need to be cut accordingly to offset the reduced volume. Further, if NMC's lost volume is temporary it could cover those losses using its days cash on hand, rather than offsetting temporary losses with a permanent charge increase that would ultimately be passed on to rate payers."

- Expenses in Physician Services division reduced by $1.8 million
  - 17 outpatient physician practices in FY2020 budget
  - 11 have reduced or flat budget in FY2021
  - 3 increased with corresponding revenue (Pulm – sleep clinic, Cardio – Tele-ICU support, Urgent Care)
  - 3 increased due to physician vendor contract increases or locum coverage (military deployment)

- Volumes continue to improve
  - Estimated EHR impact has been reduced to approximately $5 million and current volumes are within MGMA standards
  - Budget attributes only $3.3 million of FY2020 variance to utilization, challenging ourselves to recover $1.7 million
  - Difficult to separate effects of EHR and Covid-19

Risks & Opportunities – Mid Year Request Update

Mid-Year Request

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Temporary Patient Care Staff	2,029,598	3.3%
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Temporary Patient Care Staffing Ruling: "Though NMC medical staff "felt very strongly" about the need to continue offering those critical care services locally, it provided no detailed information about its assessment of the sustainability of its ICU services nor whether its neighboring tertiary care facility had the capacity to more efficiently treat those patients."

- ICU provides a positive contribution margin, even with temporary staffing ($600,000 annually), NMC receives favorable reimbursement related to Sole Community Hospital status and low volume payments.
- Inpatient pricing data indicates that transferring low acuity ICU patients to tertiary care center would place additional financial burden on payers and Vermonters.
- Tele-ICU expected to result in approximately 90 Emergency Department transfers and approximately 40 inpatient transfers avoided, annually (360 patient days, roughly doubling current ICU volume).
- Increased volumes requires approximately 5 additional nursing FTEs. Even if all are temporary staff, result is a positive operating margin, the avoidance of higher costs in a tertiary setting, and allows more Vermonters to receive care locally.
- FY2021 budget of $1.75 million compared to FY2020 projection of $2.9 million.
  - New grads to be fully oriented by October 1
  - Retained recruiting firm
- Based on current rates, Traveler RNs come with 200% premium. If all employed, cost would be $765,000.

Risks & Opportunities - Pricing

- NMC's prices are significantly below average, putting long-term financial sustainability at risk.

- This rate increase request does not represent a cost shift burden. NMC's FY2021 NPR budget has decreased compared to the FY2020 budget. The commercial payors have benefitted from NMC being far below its NPR budget in recent years (pre-COVID).

- NMC expanded its financial assistance eligibility, increased the income level and removed residency restrictions. Also simplified the policy and the plain language summary in collaboration with the HCA.

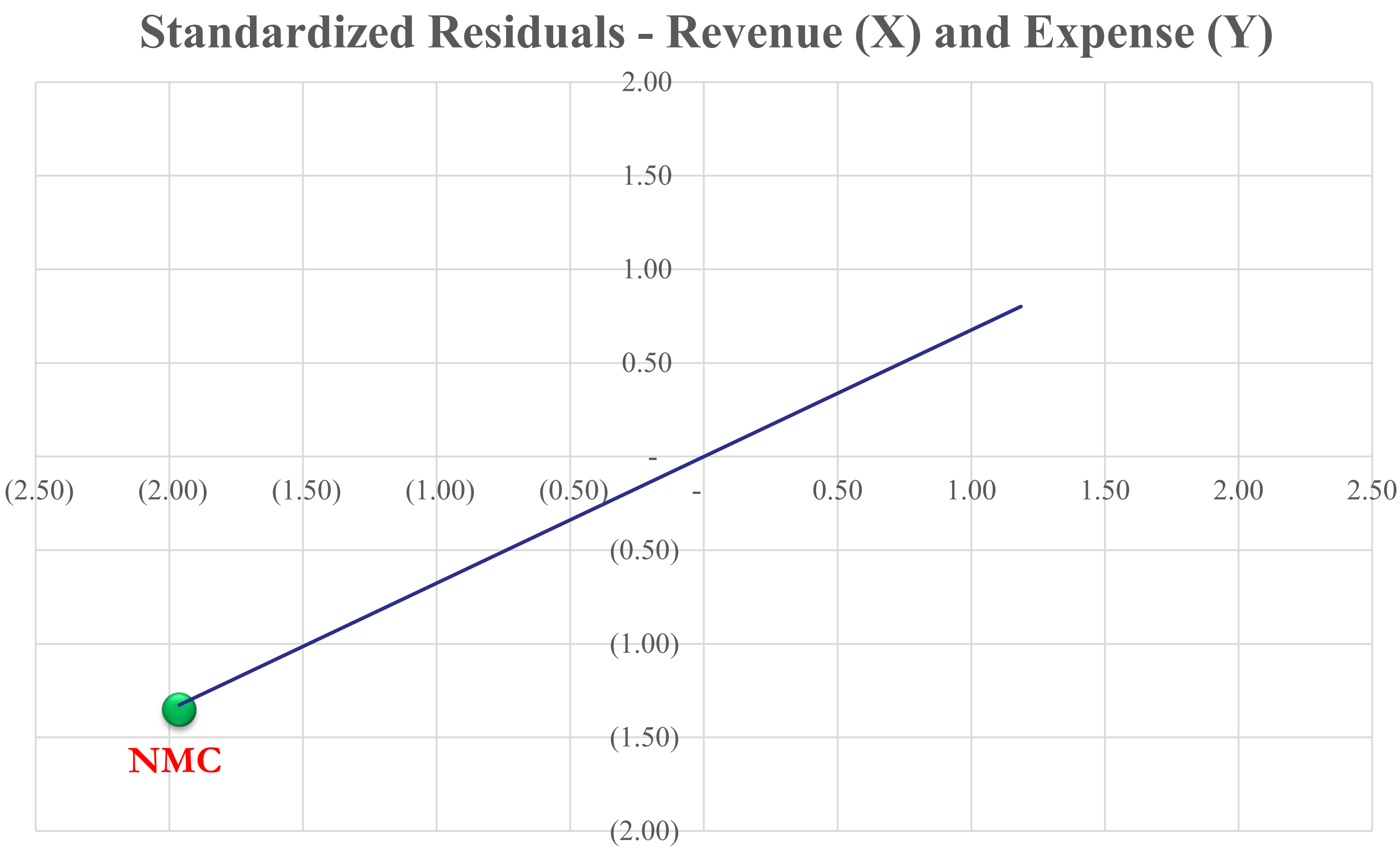
Risks & Opportunities – Pricing Con't

- Hospitals are not receiving the full contracted rate from commercial payors. Bad debts from within their subscriber base and the denials and appeals process can result in decreased reimbursement and represent an administrative cost and burden, up to a 12.5% reduction of the intended payment amount.

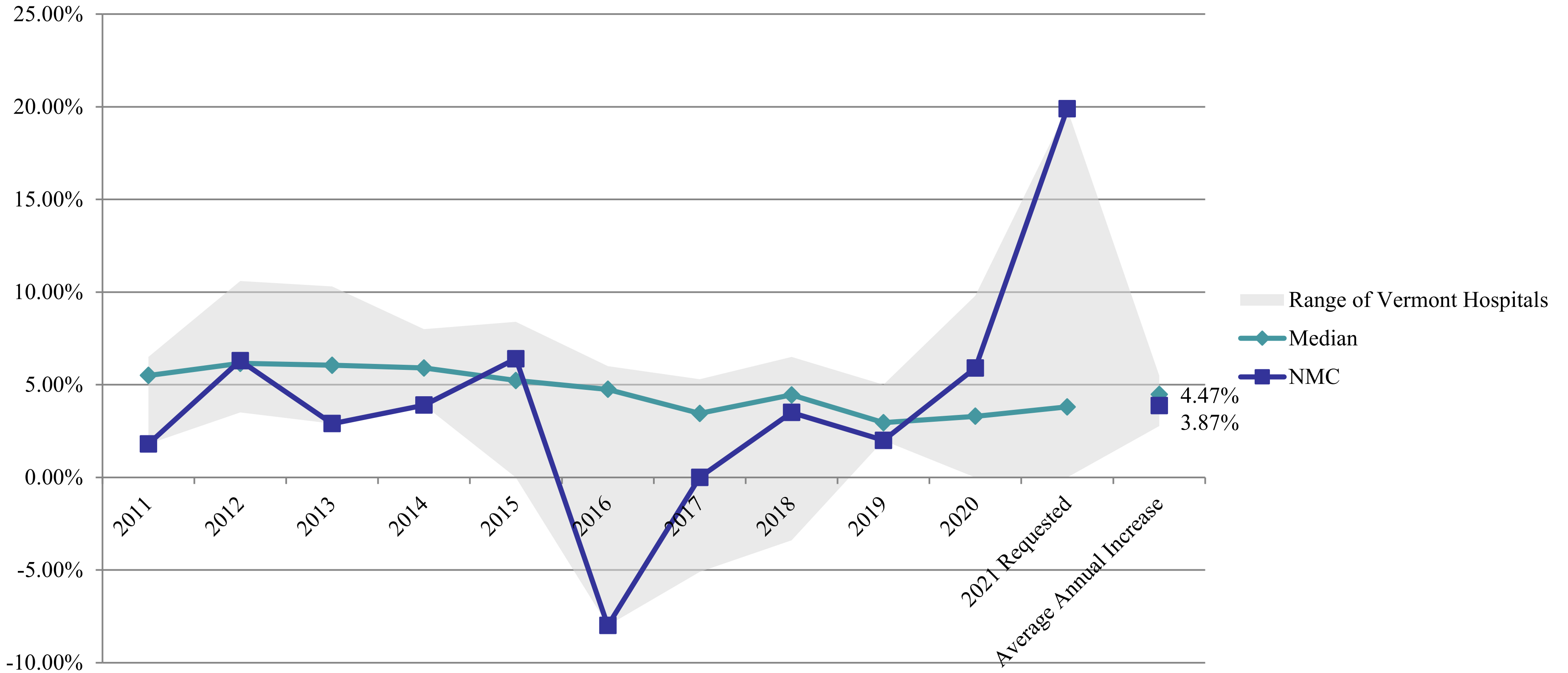
- Differences in payor mix between hospitals can result in the need for different rate increase requests. NMC has the highest Medicaid payor mix (22%) of all publicly available FY2021 budget submissions.

- Social admits and psychiatric holds limit the ability to operate efficiently and maximize NPR.

Risks & Opportunities – Pricing Con't



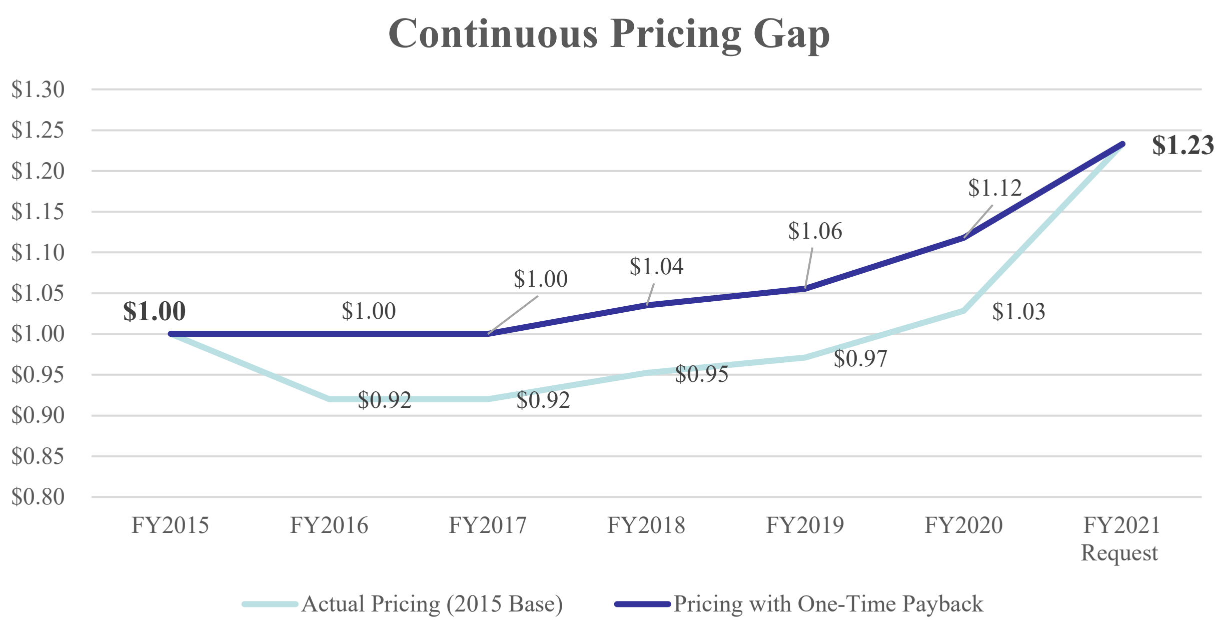
Risks & Opportunities – Pricing Con't



Risks & Opportunities – Pricing Con't

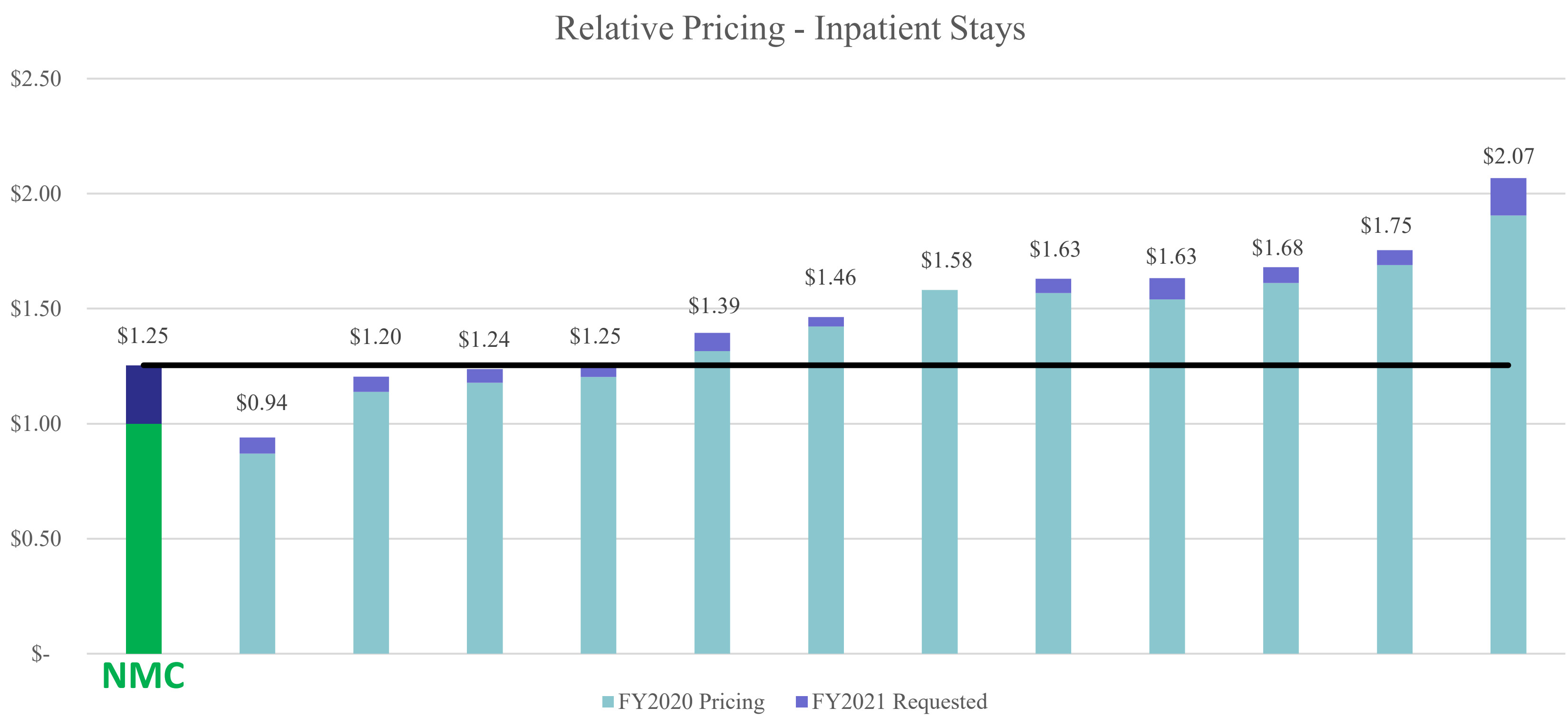
Compounding Effect of FY2016 Rate Reduction

- NPR variance of $2.9 million from FY2014 through FY2016, net of exceptions
- 8% reduction equated to $4.2 million in FY2016 and continues to compound

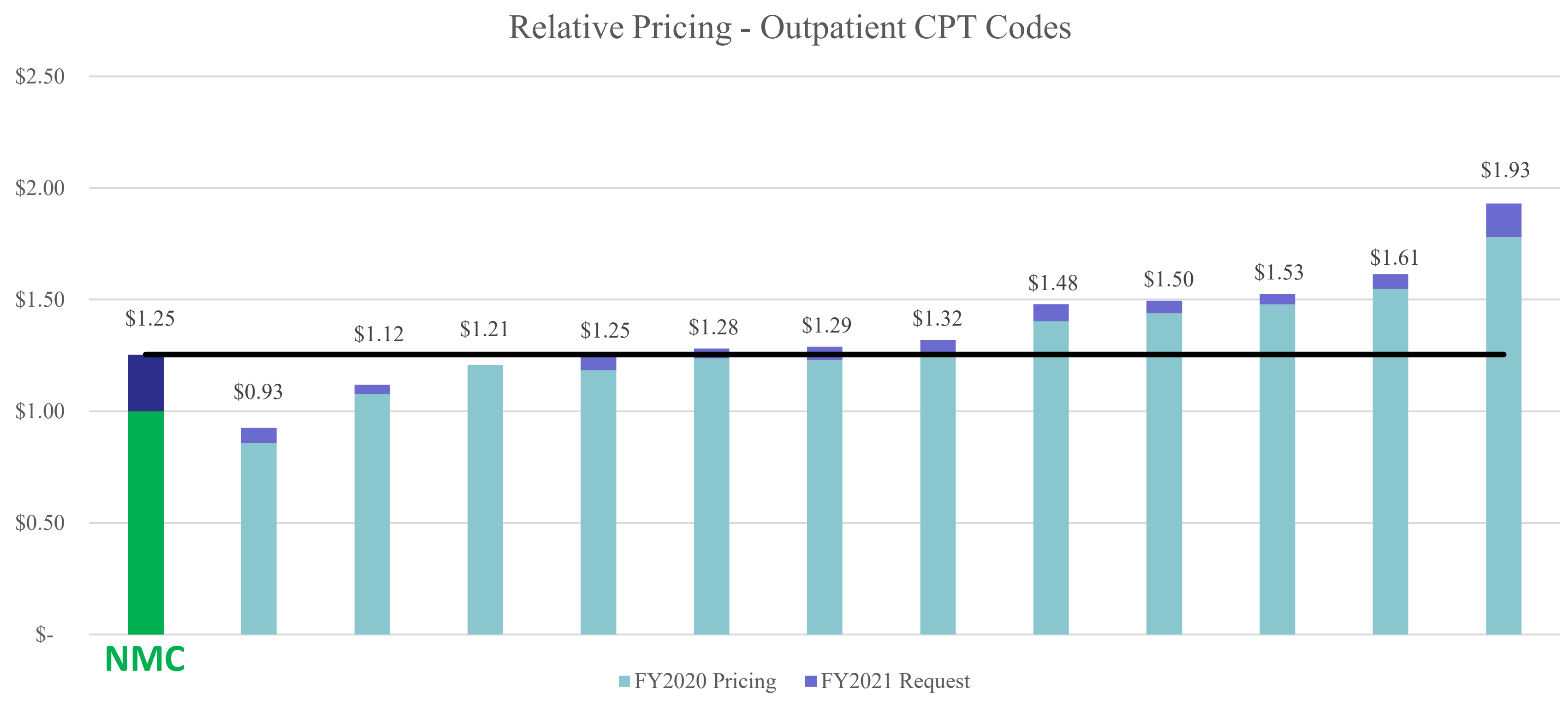


10.3% increase in FY2021 would have been needed instead of 19.9% to reach same FY2021 requested pricing

Risks & Opportunities – Pricing Con't



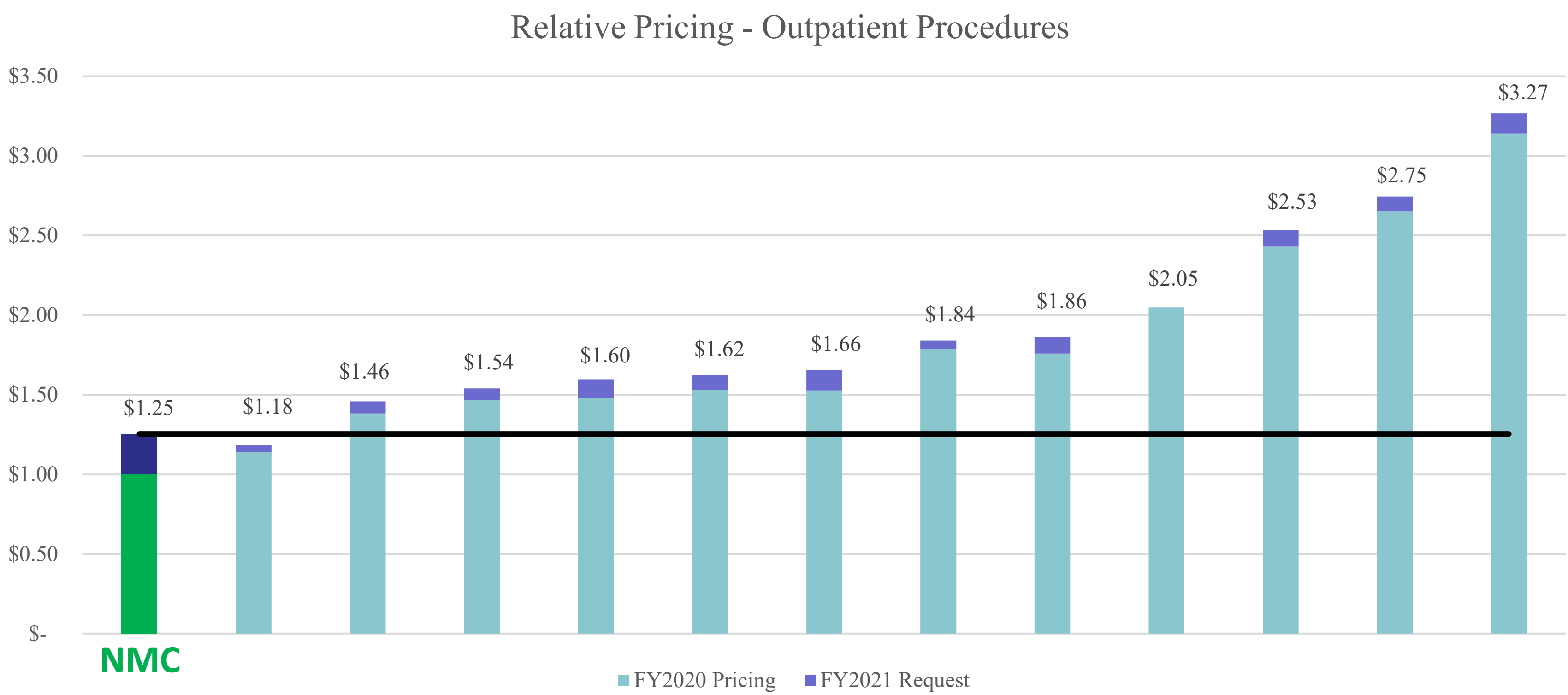
Risks & Opportunities – Pricing Con't



NMC's mission is to provide exceptional care for our community.

NMC
Northwestern Medical Center

Risks & Opportunities – Pricing Con't



Risks & Opportunities - ACO

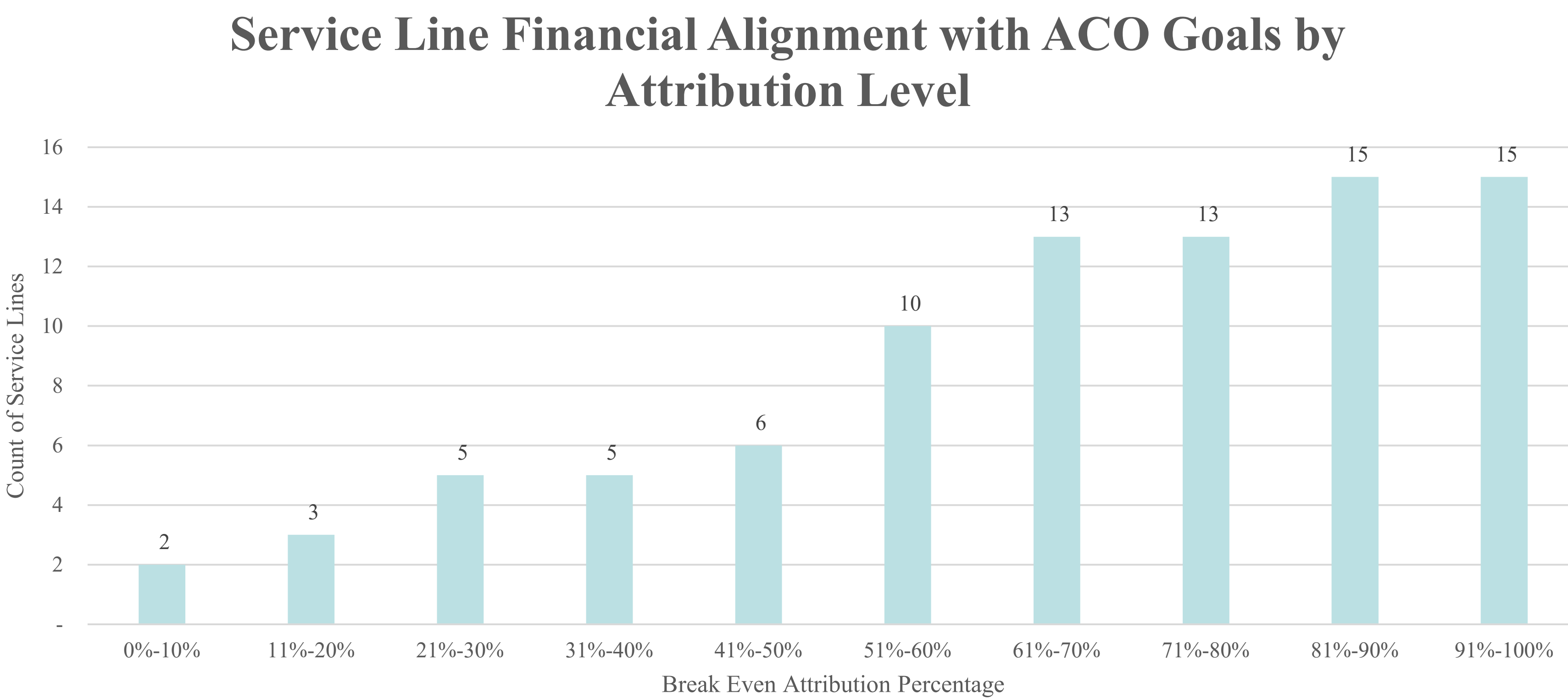
- ACO participation for 2021 is both a risk and an opportunity.
  - Represents 7.25 percentage points of NMC's overall rate increase request
    - Dues - $931,000
    - Risk Reserve Funding - $1,600,000
    - Lower Payments on Services Performed - $1,600,000
- Attribution remains far below the level needed to achieve the scale necessary to offset decline in utilization in fee for service.
- Health care stabilization grant fund eligibility has been tied directly to continued participation. NMC may not be eligible for meaningful grant funding (if any) in the first round.

Risks & Opportunities – ACO Con't

Capitated Cases	Fee For Service Cases	Direct Variable Cost per Case	Fee for Service Revenue per Case	Cost Savings (100 Cases)	Lost Revenue (Fee for Service)	Net Benefit (Cost)
25	75	900	1,900	90,000	(142,500)	(52,500)
30	70	900	1,900	90,000	(133,000)	(43,000)
35	65	900	1,900	90,000	(123,500)	(33,500)
40	60	900	1,900	90,000	(114,000)	(24,000)
45	55	900	1,900	90,000	(104,500)	(14,500)
50	50	900	1,900	90,000	(95,000)	(5,000)
55	45	900	1,900	90,000	(85,500)	4,500
60	40	900	1,900	90,000	(76,000)	14,000
65	35	900	1,900	90,000	(66,500)	23,500

Attribution needs to be at least 55% to create financial benefit across all service lines at NMC, currently at 35%.

Risks & Opportunities – ACO Con't



Risks & Opportunities – COVID-19

- COVID-19 resurgence and the unknown – Creates a wide range of possible financial outcomes

Assumption Set (in Millions)	Operating Income	Operating Expenses	Net Operating Income (Loss)
Covid-19 Free	$ 121.4	$ 118.6	$ 2.8
Covid-19 (a)	$ 97.0	$ 123.7	$(29.7)
Covid-19 (b)	$ 105.6	$ 123.7	$(18.1)
Covid-19 (c)	$ 111.1	$ 123.7	$(12.6)
Covid-19 (d)	$ 89.9	$ 124.2	$(34.3)

Covid-19 Free: Baseline budget submitted to the Green Mountain Care Board with 19.9% Rate Increase
Covid-19 (a): Assumes Phase I for three months and Phase II for nine months as discussed in narrative
Covid-19 (b): Assumes June 2020 revenue levels for all months of FY2021 and all budget costs from Covid-19 Free and Covid-19 budgets
Covid-19 (c): Continued upward trend in revenue resulting in 10% decrease from Covid-19 Free budget
Covid-19 (d): Phase I for six months and Phase II for six months

Risks & Opportunities – COVID-19

Operating Revenue	(A) Covid-19 Free	(B) Expected Covid-19 Effect	(A) + (B) Expected FY2021	(C)* Possible Covid-19 Effect	(A) + (B) + (C) Total Covid-19 Budget
Net Patient Revenue	116,693,229	1,601,584	118,294,813	(26,988,257)	91,306,556
Other Operating Revenue	5,473,872	-	5,473,872	-	5,473,872
Total Operating Revenue	122,167,101	1,601,584	123,768,685	(26,988,257)	96,780,428
Operating Expenses					
Salaries, Benefits, Physician Contracts	71,616,728	837,367	72,454,095	242,489	72,696,584
Other Operating Expenses	47,745,437	1,444,285	49,189,722	255,000	49,444,722
Total Operating Expenses	119,362,165	2,281,652	121,643,817	497,489	122,141,306
Total Operating Income (Loss)	2,804,936	(680,068)	2,124,868	(27,485,746)	(25,360,878)
Non-Operating Revenue	1,673,675	-	1,673,675	-	1,673,675
Total Income (Loss)	4,478,611	(680,068)	3,798,543	(27,485,746)	(23,687,203)
FTEs	652.94	17.71	670.65	2.58	673.23
Calculated Rate Increase Request	19.9%	1.2%	21.1%	62.9%	90.8%

*In the case of a significant utilization impact, the value of a 1% rate increase changes from $579,900 (column A) to $437,069 effecting the Calculated Rate Increase Request in (C) and the final column (A) + (B) + (C)

Risks & Opportunities – Financial Sustainability Efforts

- Service line adjustments (see earlier slide)
- Voluntary and involuntary reduction in force
- Campus consolidation resulting in fewer lease expenses
- Revision of employee benefit program
- Reduction in third party administrator fees

These decisions were instrumental in reducing budgeted expenses by $4.5 million and increased revenue by ~ $750K on an annual basis. NMC continues to do the work of managing expenses and expanding utilization appropriately to meet community need.

Risks & Opportunities – Compliance with Bond Covenants

- NMC is currently not in compliance with its debt service coverage ratio covenant
  - ✓ Actual of (0.26)
  - ✓ Minimum Requirement of 1.4

- NMC must provide an action plan within 30 days of the GMCB's decision that illustrates how we will achieve compliance within FY2021.

- If the issuer chooses to call the bond, NMC's days cash on hand would drop by approximately 100 days.

Opportunity: Improving Population Health

- **Patient-Centered Medical Homes:** Northwestern Pediatrics has been recognized as a Certified Patient-Centered Medical Home, joining Northwestern Primary Care and Northwestern Georgia Health Center;
- **Quality Preventive Care:** Northwestern Georgia Health Center recognized by Vermont Department of Health as '*Gold*' for childhood vaccinations;
- **Blueprint for Health:** NMC has been a driving local force in the Blueprint with recent HSA-teams focusing on both chronic pain and asthma/COPD;
- **RiseVT:** NMC continues to engage our community in making the healthy choices the easy choices to better support healthy behavior change.
- **Regional Clinical Performance Council:** NMC shares the lead (with Northwestern Counseling) of this collaborative quality improvement initiative that spans many community partners.

Capital Budget Plans

- Routine Replacements - $4.75M
  - CT Scanner
  - Relocation of Bulk Oxygen Tank
  - Computer Servers and Hardware Replacements
- Strategic Investments - $3M
  - Primary Care services in Medical Office Building has exceeded current capacity requiring restructure
  - Colocation of Orthopedics and Physical Therapy will increase patient satisfaction and relieve capacity issues in Medical Office Building
- Emergency Department Renovation Certificate of Need - $7M
  - Approval received in Summer of 2020 (*thank you!*)
  - Need to ensure financial sustainability before committing to such a large investment while COVID drives the need for truly separate treatment areas

Thank you

NMC has met the stated criteria for our FY'21 budget.

We have implemented the difficult decisions to reduce expenses appropriately while maintaining access to necessary care in our community.

We are requesting appropriate prices to enable us to continue to provide services to Franklin and Grand Isle residents to the benefit of all Vermonters.

Even with the requested rate increase, NMC will remain one of the lower priced hospitals in Vermont.

Questions?