Rutland Regional Medical Center
160 Allen Street, Rutland, VT 05701 | 802.775.7111 | www.RRMC.org

Patrick Rooney, Director of Health Systems Finances
Green Mountain Care Board
89 Main Street
Montpelier, VT 05620-3101

August 9, 2019

Dear Mr. Rooney:

In responses to your July 31st correspondence, below please find responses to your observations of our Fiscal 2020 Hospital Budget.

If you have additional questions or would like to discuss the content in further detail, please let me know.

Judi K. Fox

Judi K. Fox
CFO
Attachments

Cc: Claudio Fort

GMCB Questions RRMC Responses

1. **Have the hospital's projections for FY2019 changed?**

   No, when comparing Fiscal 2019 actual results as of June 30th, we are consistent with the projection that was submitted.

	2019 Projection (as presented)	2019 Projection (as updated)	Variance
Net Patient Service Revenue	$ 259,079,184	$ 258,962,305	$ (116,879)
Total Revenue	$ 277,540,342	$ 277,958,671	$ 418,329
Total Expenses	$ 273,469,106	$ 274,263,769	$ 794,663
Profit from Operations	$ 4,071,236	$ 3,694,902	$ (376,334)
Other Income	$ 6,146,261	$ 5,916,076	$ (230,185)
Total Income	$ 10,217,497	$ 9,610,978	$ (606,519)
Operating Margin	1.57%	1.43%	-0.14%

2. **What is the total ACO reserve on the balance sheet for Projected FY19 and Budget FY20? Do you anticipate realizing savings or owing OneCare money when the FY18 settlements are finalized? Are Other Reform Payments recorded in deduction from NPR, if not, where are they recorded?**

   The Budgeted 2020 reserve (ACO risk) on the balance sheet is $144,700. We had originally estimated a $600,000 maximum risk. Based on the 2019 Medicaid risk addendum that we signed in July 2019, our maximum risk is now $978,000. Based on this new maximum risk amount, our FY2020 budget includes a risk reserve of 15%.

   RRMC did not participate in any OneCare Risk program in 2018 and therefore will not be impacted by any final settlement.

   RRMC participates in the Medicaid Risk program as of January 1, 2019. As of August, we have not been provided data that would suggest what our overall hospital service area performance results are for the Medicaid program. The data that we have received to date only includes data through January 2019 which is only representative of one month of participation. We have not assumed a loss or savings in our 2019 Projection.

   Yes, the Other Reform Payments are included in the *Fixed Prospective Payments and Reserve* line of the Net Patient Service Revenue, however the organizational structure of the Hospital and Primary care in Rutland are somewhat different from the rest of the state and therefore likely present differences in reporting. As a result of these operational structures RRMC does not attribute lives or provide primary care services yet we fund population

health and care management payments to primary care. Included in the FY2020 budget, as a deduction to NPR and reported as a reduction of other reform payments is $722,000 that support primary care funding.

a. **What is your basis for booking ACO-related reserves and how do you evaluate those reserves through the year?**

RRMC intends to use a blend of the data provided by OneCare that is included in the Performance Dashboard and our own utilization data. The Performance Dashboard provides a high-level summary of attribution, spend and utilization rates which will allow us to track our risk/savings position. Given the claims adjudication process this data will lag by three to four months, to augment we will use our own data preliminarily. Although not currently available each month, OneCare does plan to make a select number of reports, including the Performance Dashboard, available on a monthly basis.

b. **Do you believe your ACO-related reserves affect other types of reserves (e.g., bad debt) that you carry on your balance sheet? If so, how?**

The Medicaid ACO reserve will not impact our reserve for bad debt or free care. The Medicaid program does not require co-pays or deductibles and therefore is not a driver of either self-pay reserve.

3. **RRMC's FY19 Budget Order states the "Hospital shall consult with Vermont Information Technology Leaders (VITL) to facilitate patients' ability to electronically consent to adding their clinical data to the Vermont Health Information Exchange (VHIE)." What kind of headway has RRMC made to facilitate this?**

RRMC has consulted with VITL to understand the requirements to have patients electronically consent to having their clinical data accessed via the VHIE. The implementation of the consent process, however, is delayed in FY2019 for 3 reasons; First, RRMC plans to align VITL opt-in consent process with our broader HIE strategy and consent process involving CommonWell Health Alliance Health Data Exchange, a national HIE that is integrated into our electronic health record workflows and will provide more comprehensive healthcare data beyond our local population and regional care. Second, the Legislature has enacted Act 53, which requires the Department of Vermont Health Access (DVHA) to develop a new public education and consent process. RRMC is waiting for DVHA to release its consent policy implementation strategy as required by Act 53, as changes are likely to impact the consent process and electronic consent. Third, the ONC and CMS have proposed changes to the current CCD data set which we send to VITL, to a more comprehensive data set abbreviated USCDI. This change, in addition to an electronic

consent workflow, will require electronic interface work with VITL that would be best combined a single work effort.

4. **What is the value of 1 day of Days Cash on Hand?**

   One day of cash equates to approximately $730,000. Please reference calculation below.

Cash	$	148,889,669
Total Expenses	$	279,494,600
Less Depreciation	$	(13,227,845)
	$	266,266,755
Total Days		365
Average Daily Expense	$	729,498
Days Cash on Hand		204

5. **What is the value of 1% of RRMC's change in charge request? If there is a variance between RRMC's calculation and the calculation provided by GMCB staff above, please include the steps to your calculation.**

   RRMC calculates that 1% change in charge will drive an increase in net revenue of $1,040,730. This is $30,000 less than the calculation by the State due to Disproportionate Share.

6. **Are Medicaid and Medicare reimbursement assumptions still valid including Disproportionate Share Payments?**

   The Medicare and Medicaid reimbursement assumptions remain unchanged. The Medicare reimbursement assumptions are based on the proposed regulations as of April 26,2019. RRMC still anticipates an IP Medicare Sole Community Hospital market basket increase of 2.6% or $784,000 in net revenue, Medicare Physician increase of .5% with negligible net revenue impact.

   Medicare rates exclude the recent proposal to transition Hip procedures to an outpatient setting. The estimated impact is $1.3 million.

   Medicaid reimbursement was based on Medicaid policy effective July 1,2019. Outpatient prospective hospital payments are based on 89% of the Medicare fee schedule which provides improved reimbursement of approximately $215,000. Medicaid Physician reimbursement improvement based on published Resource Based Relative Value System

(RBRVS) results in approximately $77,000. There is no inpatient rate change proposed by Medicaid.

The Disproportionate Share Payment included in the FY20 budget is $3,169,990 and is from the schedule published May 31, 2019.

7. **Of the 15 FTEs eliminated (salary savings of $1.8 million) were these primarily support/administrative staffing roles? Please explain.**

Leadership	5.0
Admin/Support	3.0
IP Nursing	4.1
Ancillary	2.9
TOTAL	**15.0**

8. **Inconsistencies in narrative vs. Adaptive - please explain. Narrative Operating Margin 2.5% (Adaptive 2.3%) and Total Margin 4.9% (Adaptive 4.5%)**

RRMC calculates our Operating Margin excluding the OOI (Other Operating Income) and the State calculates this including OOI.

RUTLAND REGIONAL MEDICAL CENTER Profit and Loss Statement	State Calculated	RRMC Calculated
	2020 Budget Submitted	2020 Budget Submitted
Gross Patient Care Revenue	$584,898,226	$584,898,226
Net Revenue Deductions	-$317,387,679	-$317,387,679
Net Patient Care Revenue	$267,510,547	$267,510,547
Fixed Prospective Payments (incl Reserves & Other)	$277,280	$277,280
Total NPR & FPP (incl Reserves)	$267,787,827	$267,787,827
Other Operating Revenue	$18,405,876	$18,405,876
Total Operating Revenue	$286,193,703	$286,193,703
Total Operating Expense	$279,494,600	$279,494,600
Net Operating Income (Loss)	$6,699,103	$6,699,103
Non-Operating Revenue	$6,545,053	$6,545,053
Excess (Deficit) Of Revenue Over Expense	$13,244,156	$13,244,156
Operating Margin %	2.3%	2.5%
Total Margin %	4.6%	4.9%

Operating Margin %
State calcuation: $6,699,103/$286,193,703 = 2.3%
RRMC calculation: $6,699,103/$267,787,827 = 2.5%

Total Margin %
State calcuation: $13,244,156/$286,193,703 = 4.6%
RRMC calculation: $13,244,156/$267,787,827 = 4.9%

9. **Inconsistencies in Appendix VI-Bridges Bad debt/free care increase of $2.3 million is not what is recorded in the budget submission of $3.2 million. Please explain.**

   The $2,380,000 reflected in the Bridges appendix reflects the increase in bad debt / free care, related to patterns that are currently being experienced and anticipated to continue. There is an additional increase of $947,900 that is reflected in the rate increase section of the Bridges appendix and is the direct result of increases in gross charges.

   In total Bad Debt and Free Care increase by $3,208,908.

10. **Actual operating margin consistency performs below budget. Please explain assumptions for continuing to budget operating margin above actual experience. For FY19 projections what departments are expenses exceeding revenues?**

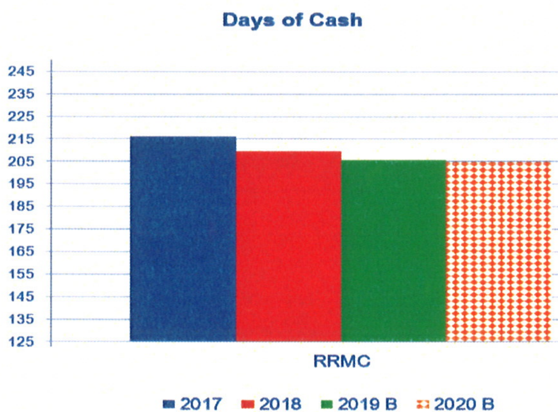
    RRMC has not met the operating margin, which we set at 2.5%, in the last two completed fiscal years and anticipates not meeting the margin again in 2019. That said, RRMC was only

one of six hospitals that has consistently demonstrated positive operating results since 2017.

Operating Margin ($)

	Actuals FY17	Actuals FY18	Budget FY19	Projection FY19	Budget FY20	5- Year Average
Brattleboro Memorial Hospital	($2,437,207)	($1,924,959)	$14,118	$927,092	$1,151,340	($559,005)
Central Vermont Medical Center	($1,902,075)	($7,868,458)	$3,256,040	$678,464	$4,168,541	($1,230,882)
Copley Hospital	($377,946)	($2,222,433)	$232,541	($1,264,349)	$1,004,619	($715,027)
Gifford Medical Center	($874,293)	($5,369,446)	$1,415,014	($437,031)	$1,540,766	($1,285,001)
Grace Cottage Hospital	($1,270,782)	($556,530)	$151,817	($1,195,164)	($264,982)	($821,865)
Mt. Ascutney Hospital & Health Ctr	$1,390,379	$1,052,255	$17,584	($400,434)	$599,865	$660,516
North Country Hospital	($1,871,960)	($1,883,575)	$958,597	$1,395,228	$1,461,937	($224,592)
Northeastern VT Regional Hospital	$1,477,373	$1,430,264	$1,558,900	$1,600,000	$1,800,000	$1,576,909
Northwestern Medical Center	($1,259,824)	($3,729,620)	$2,696,711	($4,730,884)	$1,274,415	($2,111,478)
Porter Medical Center	$2,196,330	$1,492,207	$3,291,451	$3,180,665	$3,590,524	$2,614,931
Rutland Regional Medical Center	$4,163,384	$1,297,252	$6,198,934	$4,071,236	$6,699,103	$4,057,744
Southwestern VT Medical Center	$5,775,890	$7,618,119	$6,117,017	$5,723,684	$6,052,474	$6,292,542
Springfield Hospital	($3,835,857)	($6,996,078)	$1,299,287	($6,457,593)	($985,156)	($4,568,671)
The University of Vermont Medical Center	$68,580,794	$46,127,444	$39,244,024	$39,391,154	$46,375,027	$50,118,605
System Total	$69,754,205	$28,466,441	$66,452,035	$42,482,068	$74,468,473	$53,804,726

The operating margin target is one that is carefully considered and is the result of cash flow requirements to pay principal debt, fund capital investments and contribute to our pension programs. The operating margin deficit has been mitigated over the past three years by positive investment returns but even when considering the market we have experienced a decline in days of cash on hand For this reason it is important that we focus on obtaining our margin in 2020 and by doing so we must control the growth of our cost structure.



To meet the operating margin goal, we reduced our expenses by $4.0 million in 2020. Nearly one-half of these expense reductions have begun to be realized in the last two

quarters of 2019. The expense reductions that we have put in place to support operating margin performance include the following for FY 2020.

Position Eliminations	$1,800,000	See list
Pharmaceuticals	$1,000,000	Northeast Purchasing Coalition, Vizient, 340B Medicaid Carve-In
Operating Room Supplies / Other	$518,000	Northeast Purchasing Coalition, Vizient
Fiscal Services and Administration	$387,000	IT efficiency, Transcription, Project Management
Discretionary Spending	$295,000	

11. **Rutland's narrative states that their commercial base is eroding, however the payer sheet indicates it's growing as a percentage of NPR/FPP total. Please explain assumptions.**

    Although Commercial utilization is not declining the payment base of the commercial population is declining due to the increase of high deductible plans. On average, 46% of our free care relates to accounts that have some level of insurance and 66% of bad debt is related to accounts that have insurance.

12. **Please explain the differences between FPP FY19 Budget of $25 million and FY20 budget of $12.3 million. Please explain assumptions, including reserve amounts. It looks like reserves moved from the NPR section to FPP section?**

    The FPP FY19 Budget of $25 million was based on internal reporting and analytics that RRMC completed for our service area. The FY20 Budget was based on the most recent modeling, July 2018, that was completed by OneCare. In July 2019, after having filed our FY 2020 Budget we received the Medicaid Program Addendum for Performance Year 2019 that reported that our total spend was in fact $24.4 million. The result is that the consideration for our maximum risk is too low and should be estimated at $978,193, not the $600,000 that was originally estimated. This updated program risk addendum impacts both FY 2019 and FY 2020.

    The placement of the reserves on the Income Statement, moving from the NPR Section to the FPP section, allows our accounting to align with the accounting that was recommended by the GMCB's ACO Accounting sub-group that met in the Spring of 2019. Regardless, the FPP section is considered as part of the NPSR section and serves for presentation purposes only.

Aged Blind Disabled	
Total Benchmark PMPM [1]	$540.96
Initial Attribution [2]	500
Estimated Spend [3]	**$3,245,760**

Consolidated Adult	
Home Hospital Spend PMPM	$197.70
Other Hospital Spend PMPM	$36.99
Fee-for-Service PMPM	$143.52
Total Benchmark PMPM	$378.21
Initial Attribution [2]	3,355
Estimated Spend [3]	**$15,226,735**

Consolidated Child	
Home Hospital Spend PMPM	$27.81
Other Hospital Spend PMPM	$11.11
Fee-for-Service PMPM	$82.17
Total Benchmark PMPM	$121.09
Initial Attribution [2]	4,117
Estimated Spend [3]	**$5,982,330**
Maximum Risk Limit (MRL) - 4% Risk Corridor [4]	**$978,193**

13. **RRMC's narrative states that their strategy is to fund capital replacement at 1.2 times their depreciation, however the Capital Expenditures to Depreciation Rate is 0.77. Will the ratio increase when including the MRI Replacement?**

RRMC has an annual capital budget request and approval process in place that supports all capital improvements and acquisition. All capital equipment and/or projects must be reviewed and approved by a Capital Budget committee prior to committing funding or resources. RRMC sets the total funding for capital approvals at 1.2 times annual depreciation and approves capital up to that amount each year. However, part of the funding supports contingent requests which may or may not be required each year. In FY 2019 and FY 2020 RRMC set aside $2,000,000 for capital contingency.

Given regulatory requirements our capital approval process occurs at least six months in advance of the start of any project. As a result, there are time lapses between project approval and project completion. In addition, many projects span multiple fiscal years and depending on project timelines project spending can vary between years. Lastly, project resource restraints can delay project start and completion times.

Together the spending patterns of the contingency funding and the variation in project start and completion times can often result delays in spending from year to year.

14. **The overall change in charge submitted through Adaptive was 2.7%, the table submitted in Appendix VIII-Change in Charge Request shows 2.6%. Please explain.**

    RRMC entered 2.65% into Adaptive, however the report that the State is looking at has rounded to the 2.7%. Our Appendix VIII-Change in Charge Request shows 2.64%. Our true rate increase is 2.65%.

15. **RRMC's narrative indicates the hospital is not participating in any OneCare program regarding its self-insured population, yet the table in Appendix V has been completed for the self-insured population. Please clarify the lives and average budgeted amount of FPP RRMC has indicated it has included in its budget for CY20.**

    Initially RRMC only agreed to participate in the Medicaid Risk program for participation year 2019. However, in June 2019 RRMC agreed to extend our membership to the Shared Savings Program of the University of Vermont Medical Center Employee Health Plan. Our participation is retroactive to January 1, 2019. Although we agreed to participate in the program, we have not received any modeling to determine the attributed lives or total cost of care. As this is a Shared Savings agreement only RRMC agreed to participate without having received program modeling. That said, we believe that the UVMMC employees attributable to the Rutland HSA is minimal.

    RRMC hospital employees covered under our self-insured plan are not attributing to OneCare. Although OneCare has designed a self-insured risk program for the University of Vermont Medical Center, they have not offered similar programs to other hospital's self-insured plans. We continue to be receptive of self-insured risk programs that would allow participation by our employees.

16. **For FY19 projections what departments are expenses exceeding revenues?**

    Hospitals do not budget contractual allowances at the department level due to the nature of state and federal payments being provided at a diagnosis level not a department level. As a result, identifying departments that have expenses exceeding revenue does not truly indicate financial profitability at the department level.

Based on healthcare industry claim submission, payment systems and associated standard governmental and commercial payer processing, payment is not made at the line item service level. See the sample industry standard payment voucher.

The Medicare payment to RRMC for hospital services is received with the information below.

TOTAL CHGS OTHER PAY COST OUTLIER MSP PAYMENT	DRG NUM DRG AMOUNT DRG OPR AMT DRG CAP AMT	COVD CHGS NCOVD CHGS DENIED CHGS MISC ADJ	COINSURANCE COPAYMENT DEDUCTIBLE PAT OTHER RESP	CONTRACT ADJ REIMB RATE HCPCS AMOUNT PAYMENT AMT
31,143.03	470	31,143.03	0.00	13,465.69
0.00	18,010.76	0.00	0.00	0.00
0.00	9,434.64	0.00	1,340.00	0.00
0.00	767.61	0.00	0.00	16,337.34

The Medicare Payment to RRMC for the Physician Surgical Fee is received with the information below.

TOTAL CHGS OTHER PAY COST OUTLIER MSP PAYMENT	DRG NUM DRG AMOUNT DRG OPR AMT DRG CAP AMT	COVD CHGS NCOVD CHGS DENIED CHGS MISC ADJ	COINSURANCE COPAYMENT DEDUCTIBLE PAT OTHER RESP	CONTRACT ADJ REIMB RATE HCPCS AMOUNT PAYMENT AMT
5,420.00		0.00	243.21	4,080.24
0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	143.17	0.00
0.00	0.00	0.00	0.00	953.38

The Medicare Payment to RRMC for the Assistant Surgeon Fee is received with the information below

TOTAL CHGS OTHER PAY COST OUTLIER MSP PAYMENT	DRG NUM DRG AMOUNT DRG OPR AMT DRG CAP AMT	COVD CHGS NCOVD CHGS DENIED CHGS MISC ADJ	COINSURANCE COPAYMENT DEDUCTIBLE PAT OTHER RESP	CONTRACT ADJ REIMB RATE HCPCS AMOUNT PAYMENT AMT
1,369.00		0.00	36.54	1,189.20
0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	143.26

Opposed to tracking profitability at the department level, we hold all departments accountable to their approved expenditure budget. In 2019 the following departments are projected to be over budget.

- Pharmacy and Pharmacy 340b – Expenses are projected to be over budget $4.5 million due to cost of pharmaceuticals higher than anticipated.
- Physician Locum contracts – Expenses are projected to be $1.2 million over budget, due to changes in contracts unknown at the time the budget was submitted.
- Employed Physician contracts – Expenses are projected to be $900,000 over budget due to changes in contracts unknown at the time the budget was submitted.
- Inpatient Units – Expenses are projected to be over budget $1.2 million mainly due to increased need for temporary staffing for our RN vacancies.

17. **Please suggest a statistic the GMCB can monitor to better understand the trends in the total number of staffed beds in the hospital versus the number of beds available for use, and how full or empty those beds are from month to month?**

RRMC calculates, on a monthly basis, our occupancy % per unit. This could be used to identify how full or empty those beds are?

RUTLAND REGIONAL MEDICAL CENTER

STATISTICS BY LOCATION
FISCAL YEAR 2019

SCU	FEBRUARY ACTUAL	MARCH ACTUAL	APRIL ACTUAL	MAY ACTUAL	JUNE ACTUAL	YTD TOT_ ACTUAL
Days	444.00	516.00	441.00	490.00	544.00	4,235.00
Observation Days	22.00	18.00	28.00	30.00	22.00	228.00
Discharges	142.00	155.00	133.00	167.00	158.00	1,362.00
Available Beds	560.00	620.00	600.00	620.00	600.00	5,460.00
Occupancy %	83.21%	86.13%	78.17%	83.87%	94.33%	81.74%
Avg Daily Census (including Obs Days)	16.64	17.23	15.63	16.77	18.87	16.35
ALOS	3.28	3.45	3.53	3.11	3.58	3.28

The calculation for Occupancy % is Total Days (Days + Observation Days) divided by available beds (available beds daily * days in the month – example for February 20 beds * 28 days = 560 Available Beds). RRMC defines Available Beds as the number of Staffed Beds and not Licensed Beds.

18. What is the impact of the now Medicaid reimbursement increases? Any update on Medicaid reimbursement changes?

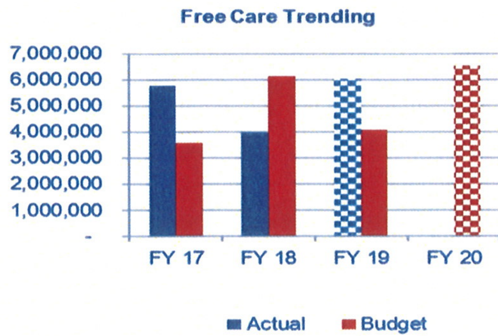
Refer to response in Question 6 above.

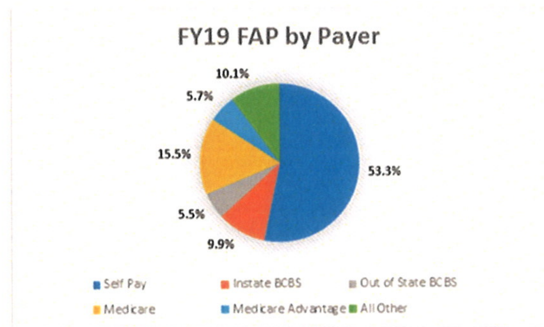
19. If you assumed Medicare increases, what is the value and what would a reduction in commercial be to maintain your NPR budget for 2020?

Refer to response in Question 6 above.

20. Please explain the significant free care program increase of over $2 million. Do you have any ability to collect or programs to offset?

The number of patients qualifying for free care continues to increase year over year. In our Fiscal 2020 budget we are estimating free care provisions of $6.5 million dollars or 1% of gross revenue. This is consistent with our Fiscal 2019 projection. The increase, in part, is due to patient's inability to afford high deductible plans. This 'under-insured' population makes up 46% of our Free Care reserve.





21. Please explain ACO Medicare withholds of $721k from Appendix VI-Bridges. Also why is utilization projected to be down for Medicare and Medicare and up significantly for Commercial.

Due to the separate organizational structures of the hospital and primary care network in the Rutland health service area there are likely financial and reporting differences when compared to the rest of the state. As a result, RRMC does not provide primary care services nor receive care management supplemental payments. However, as required by the ACO, we do fund supplemental care management payments via withholds from our Fixed Prospective Payments which total $721,000.