NMC FY'20 Budget Presentation: Transforming Hospital Care while Advancing Population Health

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Thank you for this opportunity to speak.

A Reality Check on the Vulnerability of Hospitals

- NMC has been named one of the nation's "Top 100 Rural & Community Hospitals" by the National Rural Health Association;
- NMC is a lean organization with an overall productivity index of 97% when benchmarked against the 75th percentile of hospitals within our national QHR peer group;
- NMC has been courageous in taking on risk, ensuring access, investing in population health, and partnering in the transformation of healthcare;

and yet …

- NMC has suffered a negative bottom line for three consecutive fiscal years;
- The current environment has made many of Vermont's hospitals vulnerable.

The time has come to align priorities and incentives across the system.

Hospital Issues

- Wage pressures and medical inflation costs exceeding allowed revenue cap, creating 3 consecutive years of operating losses;
- Recruitment and retention of top talent in times of shortage and uncertainty;
- Pace of change is exhausting for our staff;
- Complicated transition to an integrated electronic health record across the organization;
- Aging facilities that need to be updated for quality, efficiency, safety, & privacy;
- Aging population who still need chronic care, even with prevention focus;
- Lack of reimbursement for prevention services;
- Ensuring access to care through employment of physicians creates the illusion that hospital costs are rising;

Areas of Risk & Opportunity

- Our Community Health Needs Assessment calls on us to address mental health, addiction, obesity, suicide, domestic/sexual assault, food insecurity, and tobacco/vaping;
- Advancing surgical optimization and Lifestyle health coaching while RiseVT works in the community on healthy culture, policy, and infrastructure;
- For-Profit Ambulatory Surgery Center's direct negative impact;
- Shifting from 30% capitation to 70% capitation by 2022;
- Revenue cap inhibiting financial health and necessary future capital;
- Achieving an integrated electronic health record across the organization;
- Collaboration with Health Care Advocate on Financial Assistance policies;
- Partner relationships take thoughtful dialogue and evolution;

Areas of Risk & Opportunity

- Redefining our Future: Strategic planning at NMC by our Board, Medical Leaders, and Management with input from our staff, our community, and industry experts to identify what service lines we invest in, maintain, change, or divest;
- Advancement of Technology into new care practices (telehealth);
- Violation of bond covenant related to debt service coverage ratio;
- Fluctuations in operations creating instability of financial forecasts, including a variance from our originally submitted FY'19 projections and FY'20 budget;
- The opportunity to align the visions and actions of the Green Mountain Care Board, the Legislature, the payors, and the healthcare providers to create a healthier future for all Vermonters – and giving hospitals the budgetary latitude needed if we are expected to fund and fuel that future.

NORTHWESTERN MEDICAL CENTER & RISEVT

RiseVT, now a statewide movement to embrace healthy lifestyles, began in our community with NMC as a founder.

Our team is partnering with our schools, employers, and municipalities on policies, infrastructure, and culture so the healthy choice is the easy choice.

We are hitting our short-term engagement targets on our way to our mid-term goals of behavior change. This fall, we will conduct our 2nd measurement study with our schools regarding our long-term goal of reducing childhood obesity.

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Sampling of RiseVT's Evidence-Based Impact in 2019:

- Maple Run School District's WellSat score of strength and comprehension of wellness policy revolutionized from 33% to 82%;
- RiseVT engaged 1600+ children in 100+ classrooms across every school district, integrating wellness into curriculum;
- 20 municipal healthy infrastructure/policy projects advanced in 2019, including: sidewalks, playgrounds, smoke-free parks, economic development through recreation, trails, and expanded Farmers' Markets;
- The Worksite Wellness Community Coalition has grown to 42 active employers who are improving policies and engaging employees in healthier habits to reduce healthcare costs;
- NMC is a Gold-level RiseVT worksite and our HealthyU program shows that high risk employees who are health coached have a $3,288-a-year lower per person cost.

Net Patient Revenue & Fixed Prospective Payments

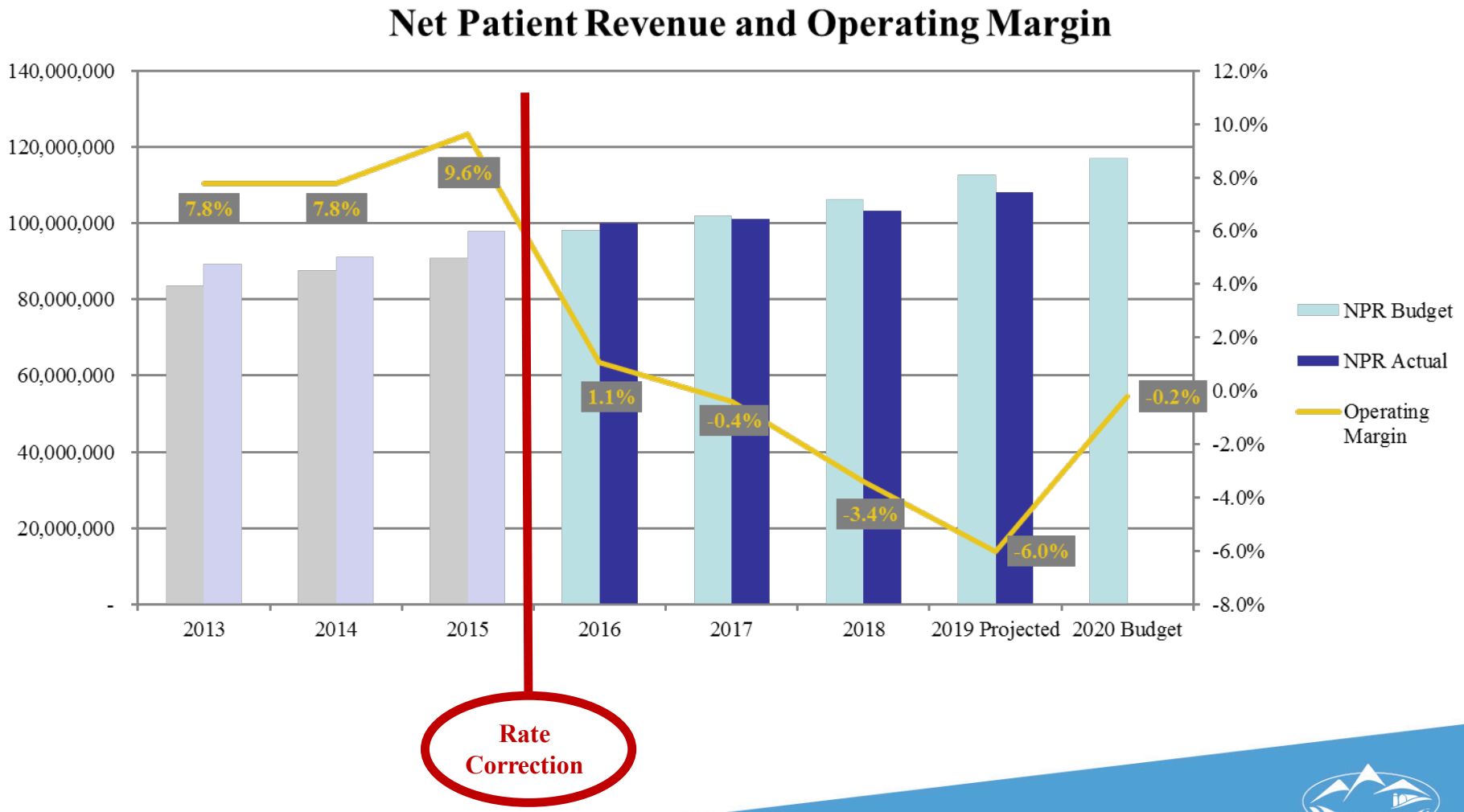
FY'2019 Budgeted NPR	$112,773,980
Dermatology Physician Transfer Out	($711,015)
Total FY'2019 Baseline NPR	$112,062,965
3.5% Allowable NPR Growth	$3,922,268
Primary Care Transfer In	$941,346
FY'2020 Budgeted NPR	$116,926,579

NMC's rate increase has 2 components:

- 7.63% increase on hospital-based services
- 0% increase on physician professional services

Results in an overall rate increase of 5.9% that will be applied to all payors

Financial Health – Key Metrics



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

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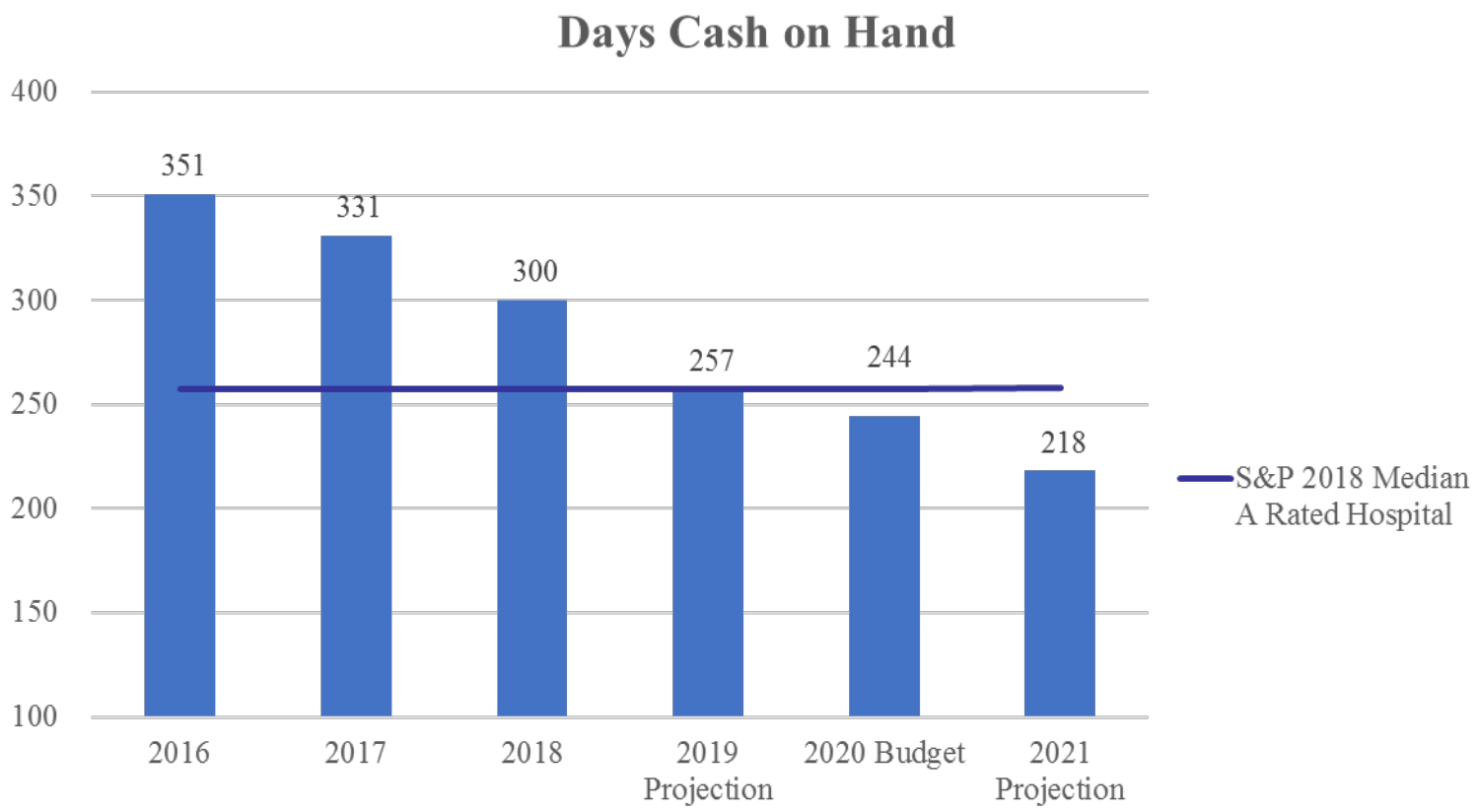
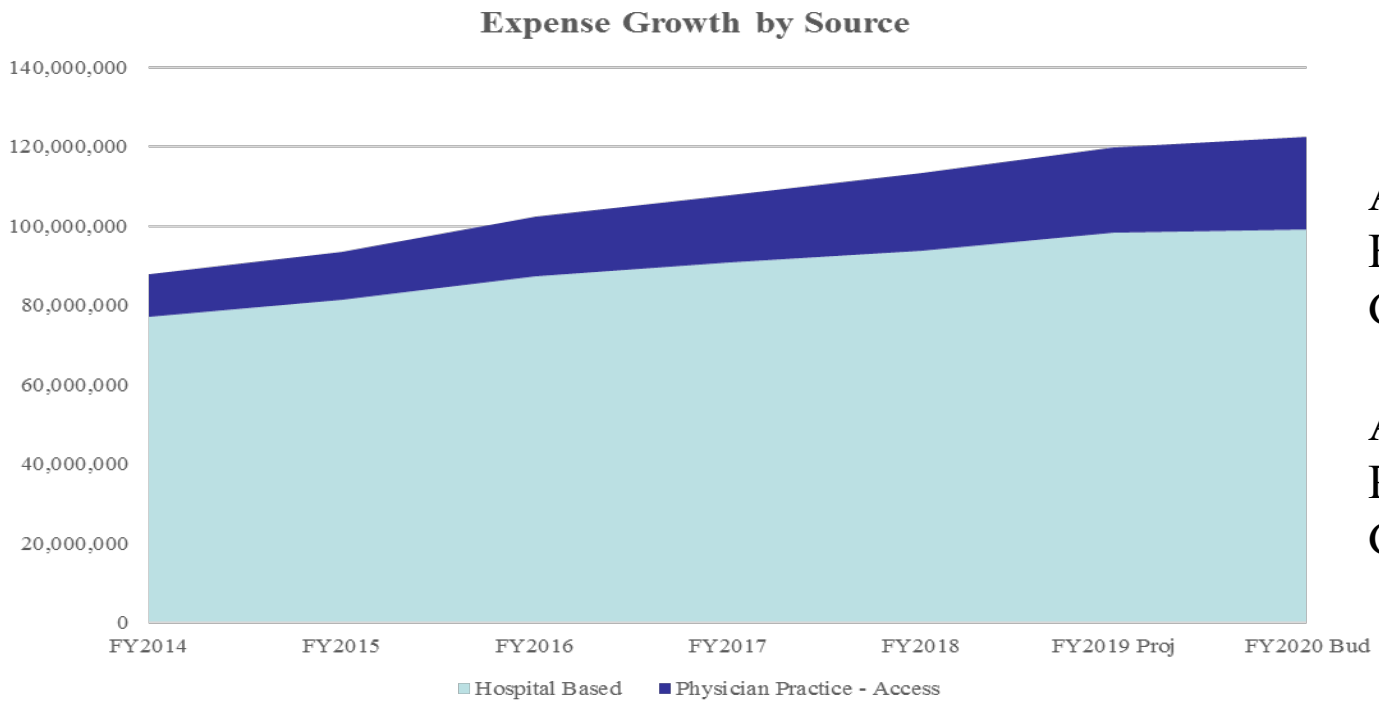
Financial Health – Key Metrics



Note – Includes ED Modernization Project CON

Financial Health – Key Metrics

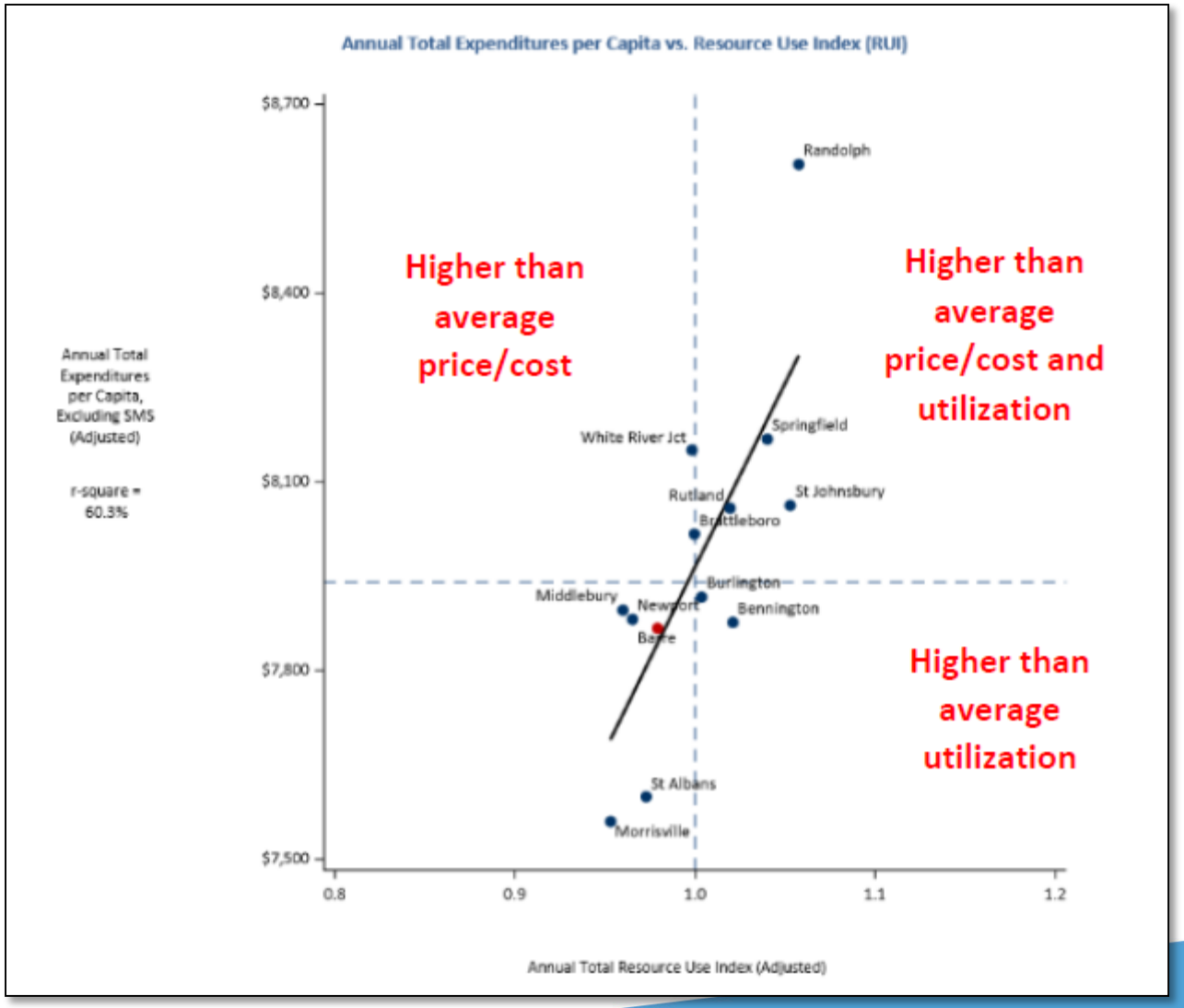


Average Annual Hospital Based Growth Rate – 4.3%

Average Annual Physician Practice Growth Rate – 13.8%

- Represents NMC investment in access and the transition to a system focused on wellness and prevention. NMC's FY'20 budget includes direct expenses for Primary Care, Pediatrics, Urgent Care, Community Case Management, Lifestyle Medicine including Health Coaching, RiseVT, and Addiction Services of over $12.5 million.

Financial Health – Key Metrics



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Financial Overview

Profit and Loss

	2020 Budget
Net Patient Revenue	116,926,579
Other Operating Revenue	5,213,346
Total Operating Revenue	122,139,925
Total Operating Expenses	122,388,212
Net Loss From Operations	(248,287)
Non-Operating Income	1,706,318
Net Income	1,458,031

Balance Sheet

	2020 Budget
Current Assets	70,502,196
Board Designated Assets	24,000,000
Other Assets	70,963,167
Total Assets	165,465,363
Current Liabilities	12,284,432
Risk Reserve for Fixed Reform Payments	2,981,983
Long Term Debt	28,349,024
Other Noncurrent Liabilities	1,500,000
Total Liabilities	45,115,439
Fund Balance	120,349,924
Total Liabilities and Fund Balance	165,465,363

Financial Overview

NORTHWESTERN MEDICAL CENTER
STATEMENT OF CASH FLOWS
FISCAL YEAR 2020 BUDGET

CASH FLOW FROM OPERATING ACTIVITIES:	
Excess of Revenues and Gains Over Expenses	$1,458,031
Add items not requiring cash:	
Depreciation & Amortization	6,702,192
Net cash provided by operating activities	8,160,223
CASH FLOW PROVIDED BY (USED IN) INVESTING ACTIVITIES:	
Cash used to purchase property, plant and equipment	(14,638,804)
Net cash used in investing activities	(14,638,804)
CASH FLOW PROVIDED BY (USED IN) FINANCING ACTIVITIES:	
Repayment of debt	(1,525,500)
Net cash used in financing activities	(1,525,500)
NET CASH FLOW	(8,004,081)
BEGINNING CASH & INVESTMENTS OCTOBER 1, 2019	56,117,996
ENDING CASH & INVESTMENTS SEPTEMBER 30, 2020	$48,113,915

Cost Drivers & Cost Containment

New expenses have been identified related to the Meditech Ambulatory implementation.

These difference between the originally submitted FY'20 budget and the revised FY'20 budget are as follows:

- Clinical Staff to Support Providers – $581,592
- Health Information Management Coding Staff – $352,302
- Information Technology Support – $78,544
- Interfaces, Licenses, and Support Fees – $248,000
- All Other – $262,264

Total new expenses - $1,522,702

Cost Drivers & Cost Containments

NMC's Operational Improvement Plan --
Significant Cost Reductions in FY'19 & FY'20 include:

Staffing - Non-management	$	1,306,919
Staffing - Management		529,529
340b Program		500,000
Unidentified		500,000
Staffing - Providers		497,900
Overtime Reduction		473,405
All Other		444,086
Implant Contract Renegotiation		350,000
Lab Reference Testing Vendor Change		274,000
Staffing - Progressive Care Unit		262,800
Voluntary Exit Program		251,022
Lifestyle Medicine/RiseVT		250,000
Staffing - Capitalize Project Management		103,750
Sitter Program		92,938
Shift Incentive Reduction		75,754
OR Call Pay Reduction		43,000

Financial Overview – FY'2019

Profit and Loss

	2019 Budget		2019 Projected
Net Patient Revenue	112,773,980	Net Patient Revenue	108,246,154
Other Operating Revenue	6,166,078	Other Operating Revenue	4,774,144
Total Operating Revenue	118,940,058	Total Operating Revenue	113,020,298
Total Operating Expenses	116,243,347	Total Operating Expenses	119,786,056
Net Income From Operations	2,696,711	Net Loss From Operations	(6,765,758)
Non-Operating Income	1,151,419	Non-Operating Income	82,433
Net Income	3,848,130	Net Income	(6,683,325)

Breakdown of $9.5 million net operating income unfavorable variance:

- Meditech Ambulatory Implementation on May 1 (NPR) – $3.3 million
- Self-insured Health Claims (Expense) – $1.7 million
- Surgeon away on Family Medical Leave (NPR) – $1.2 million
- Locum Physicians, Interim Management/Consulting (Expense) – $1.3 million

As of April 2019, NMC was on track to achieve our Net Patient Revenue for FY'19.

Capital Budget Plans

Certificates of Need Status:

- NMC recently closed the Medical Office Building CON;
- NMC anticipates closing the Private Inpatient Rooms & Medical Clinics CON in November of 2019;
- NMC has been granted expedited review for our Emergency Department Modernization Project – Total Cost $7,616,215

Capital Budget Plans

Funds Available for Capital	7,800,000
Routine Capital Purchases	4,903,572
Key categories includes:	
Facilities Improvements	
Information Systems	
Clinical Equipment	
Strategic Investments:	
Emergency Department (Partial)	3,962,701
Valley Crossroads (Addiction Services)	1,500,000
Congress & Main (Nursing School & Wellness)	1,000,000
Other Initiatives	3,022,531
Contingency Funds	250,000

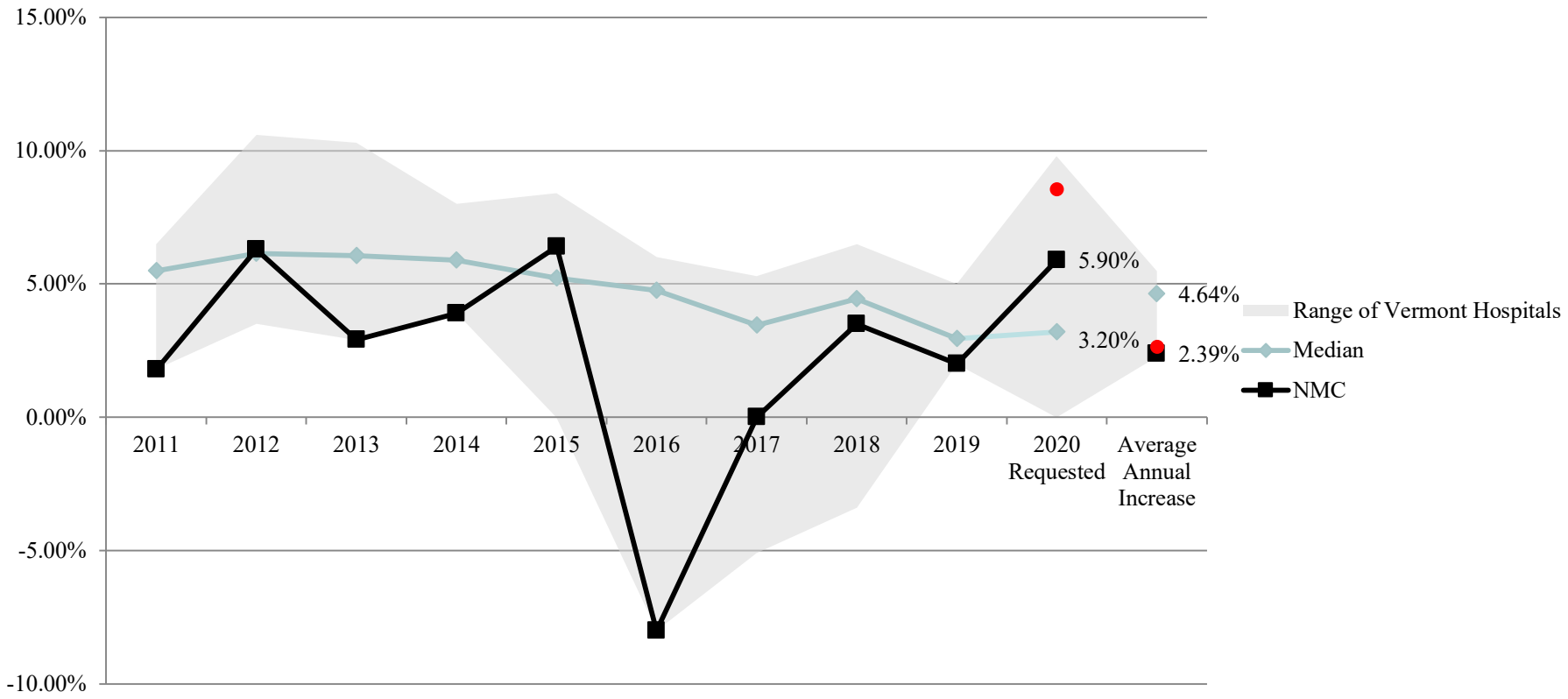
NMC cash reserves will fund $6.8 million of capital expenditures in FY2020.
Approximately 21 days of Days Cash on Hand

Long Range Financial Outlook

	FY2019 Projection	FY2020 Budget	FY2021 Projection	FY2022 Projection	FY2023 Projection
NET PATIENT REVENUE	108,246,154	116,926,579	121,019,009	125,254,675	129,638,588
OTHER REVENUE	4,774,144	5,213,346	5,213,346	5,213,346	5,213,346
TOTAL NET OPERATING REVENUE	113,020,298	122,139,925	126,232,355	130,468,021	134,851,934
Salaries and Wages and Benefits	74,677,745	75,885,861	78,162,437	80,507,310	82,922,529
Other Expenses	45,108,311	46,502,351	47,897,422	49,334,344	50,814,375
TOTAL OPERATING EXPENSES	119,786,056	122,388,212	126,059,858	129,841,654	133,736,904
NET OPERATING INCOME (LOSS)	(6,765,758)	(248,287)	172,497	626,366	1,115,030
NET OPERATING MARGIN	**-5.99%**	**-0.20%**	**0.14%**	**0.48%**	**0.83%**

These margins reflect what would happen if NMC did nothing to improve them. They are not acceptable or sustainable. Through strategic planning with our Board, Leadership, and Medical Staff leaders, we are redefining our mix of programs and services to ensure sustainability.

Historical Compliance with Budget Orders



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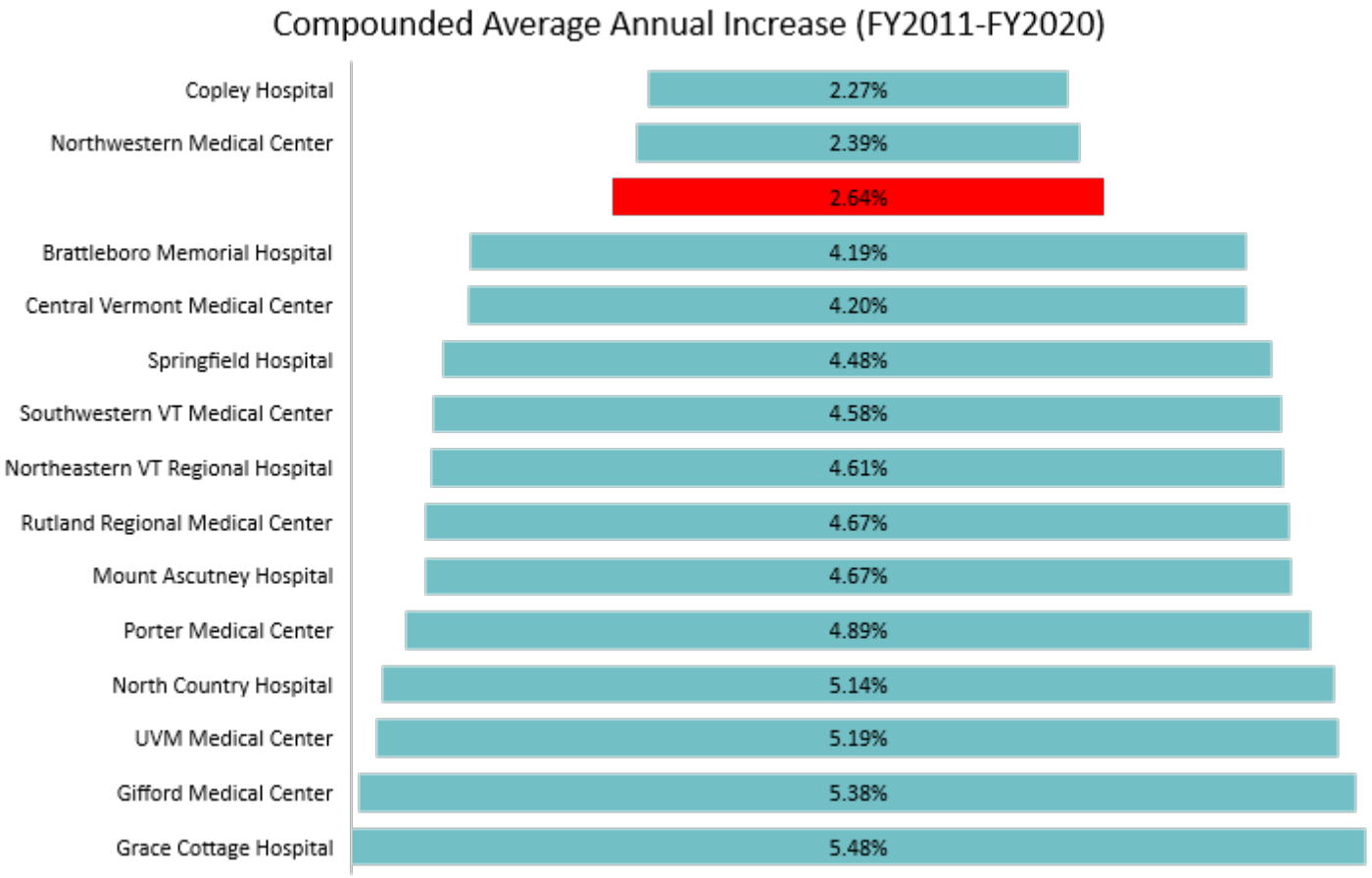

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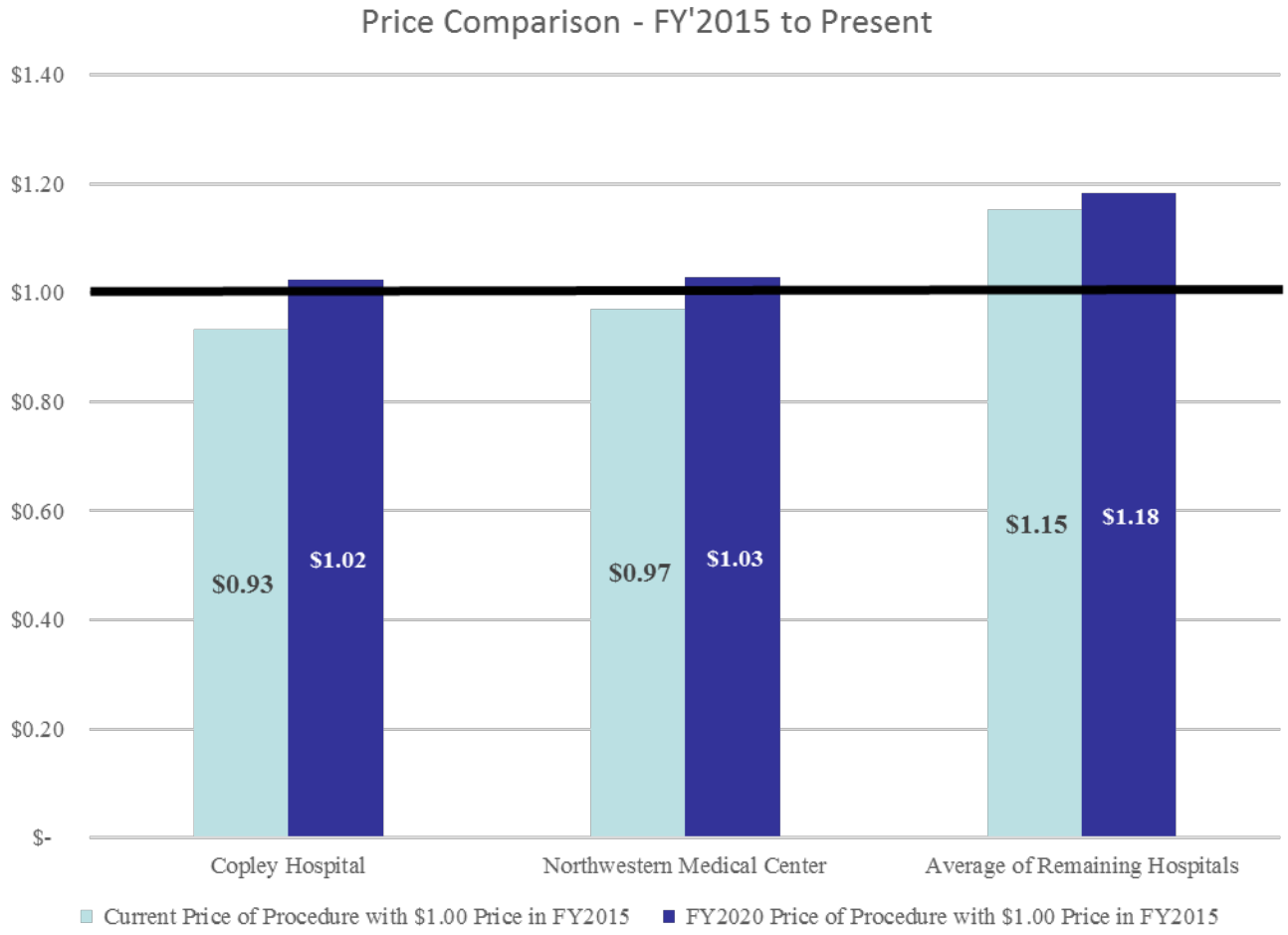

We have reached the tipping point.

You have held our feet to the fire:

- Our rates have been reduced;
- Our days cash on hand have been drawn down;
- We have cut expenses while fighting to preserve access;
- We are all in on the shift to 70% capitation by 2022, yet we are concerned about Vermont's ability to get there.

We are now at the tipping point where further financial pressure jeopardizes:

- Access to care in our community;
- Economics in our community;
- Investment in prevention for future well-being of our community;
- The transformation of the healthcare system.

This budget is appropriate, transparent and requires approval as submitted.