



Rutland Regional Medical Center

*Fiscal Year 2017
Operating Budget & Capital Planning*

*Green Mountain Care Board
August 18, 2016*



Rutland Regional Medical Center
An Affiliate of Rutland Regional Health Services



Budget Summary

Rutland Regional Medical Center
Budget Year 2017

Statement of Revenue and Expense

Departments	2015 Actual	2016 Budget	2016 Projection	2017 Budget	Percentage of Change		
					Actual To Projection	Budget To Budget	Projection To Budget
OPERATING REVENUE							
PATIENT SERVICE REVENUE	\$ 493,394,512	\$ 510,432,125	\$ 514,799,410	\$ 500,916,338	4.34%	-1.86%	-2.70%
TOTAL DEDUCTIONS	\$ (259,954,621)	\$ (267,388,301)	\$ (264,412,554)	\$ (253,028,950)	1.71%	-5.37%	-4.31%
CHARITY CARE	\$ (4,167,120)	\$ (5,627,667)	\$ (3,665,372)	\$ (3,569,908)	-12.04%	-36.57%	-2.60%
PROVISION FOR UNCOLLECTIBLE ACCOUNTS	\$ (5,520,297)	\$ (8,337,141)	\$ (6,804,114)	\$ (6,626,902)	23.26%	-20.51%	-2.60%
MEDICAID DPS PAYMENTS	\$ 4,576,163	\$ 4,169,146	\$ 4,200,185	\$ 5,724,870	-8.22%	37.32%	36.30%
NET PATIENT SERVICE REVENUE	\$ 228,328,637	\$ 233,248,162	\$ 244,117,555	\$ 243,415,448	6.91%	4.36%	-0.29%
OTHER OPERATING REVENUE	\$ 9,275,938	\$ 9,938,846	\$ 9,437,234	\$ 11,017,731	1.74%	10.86%	16.75%
TOTAL OPERATING REVENUE	\$ 237,604,575	\$ 243,187,008	\$ 253,554,789	\$ 254,433,179	6.71%	4.62%	0.35%
OPERATING EXPENSES							
SALARIES & PAYMENTS TO PHYSICIANS	\$ 30,045,952	\$ 30,114,342	\$ 31,789,877	\$ 33,356,021	5.80%	10.76%	4.93%
SALARIES - NURSING INPATIENT	\$ 15,486,369	\$ 16,021,785	\$ 16,884,845	\$ 17,591,610	9.03%	9.80%	4.19%
SALARIES - ANCILLARY PATIENT CARE	\$ 34,489,082	\$ 35,495,849	\$ 36,008,167	\$ 38,377,330	4.40%	8.12%	6.58%
SALARIES - SUPPORT	\$ 20,626,393	\$ 21,644,982	\$ 21,614,485	\$ 23,273,622	4.79%	7.52%	7.68%
TOTAL SALARIES EXCLUDING PHYSICIANS	\$ 70,601,844	\$ 73,162,616	\$ 74,507,497	\$ 79,242,562	5.53%	8.31%	6.36%
SUPPLIES & EXPENSE	\$ 68,219,623	\$ 71,458,141	\$ 71,586,823	\$ 71,599,245	4.94%	0.20%	0.02%
ADMINISTRATIVE & GENERAL EXPENSE	\$ 36,182,235	\$ 33,155,429	\$ 34,078,230	\$ 34,640,408	-5.82%	4.48%	1.65%
CHCRR SUBSIDY	\$ 813,506	\$ 669,908	\$ 669,908	\$ 226,510	-17.65%	-66.19%	-66.19%
MEDICAID DPS TAX ASSESSMENT	\$ 13,002,474	\$ 13,519,505	\$ 14,351,830	\$ 14,352,823	10.38%	6.16%	0.01%
DEPRECIATION EXPENSE	\$ 12,433,771	\$ 13,374,000	\$ 13,375,319	\$ 13,161,688	7.57%	-1.59%	-1.60%
INTEREST & OTHER BOND EXPENSE	\$ 1,897,137	\$ 1,873,113	\$ 1,871,223	\$ 1,749,035	-1.37%	-6.62%	-6.53%
TOTAL OPERATING EXPENSES	\$ 233,196,542	\$ 237,327,054	\$ 242,230,707	\$ 248,328,292	3.87%	4.64%	2.52%
INCOME FROM OPERATIONS	\$ 4,408,033	\$ 5,859,954	\$ 11,324,082	\$ 6,104,887	156.90%	4.18%	-46.09%
NON OPERATING INCOME	\$ (492,377)	\$ 5,973,111	\$ 3,615,606	\$ 7,136,913	-834.32%	19.48%	97.39%
EXCESS OF REVENUE OVER EXPENSE	\$ 3,915,656	\$ 11,833,065	\$ 14,939,688	\$ 13,241,800	281.54%	11.91%	-11.36%



The Punch Line

- NPR up 4.36% Budget to Budget
 - 3% target
 - .40% health reform investment
 - .96% market share shift
- Rate Decrease
 - 3.9% decrease April 8, 2016
(\$19.6 million)
 - 1.3% decrease October 1, 2016
(\$6.55 million)



Allowed Net Patient Service for 2017

2016 Net Patient Service Revenue Budget	\$233,248,000
Allowed 3% Growth – Volume / Reimbursement	\$ 6,997,000
Allowed 0.4% Growth – Healthcare Reform	<u>\$ 933,000</u>
Allowed 2017 Net Patient Service Revenue Budget	\$241,178,000
Budgeted 2017 Net Patient Service Revenue Budget	\$243,415,000
Requested Market Share Adjustment	\$ 2,237,000



What we believe is going on:

■ Market share shift

- Asking to be included in '17 and '16

■ Random variation

- Not included



Why market share adjustments conceptually must be included:

- Patients right to choose
- Incentive to innovate and get better
- Incentive not to reduce access
- ACO Payment Reform Group

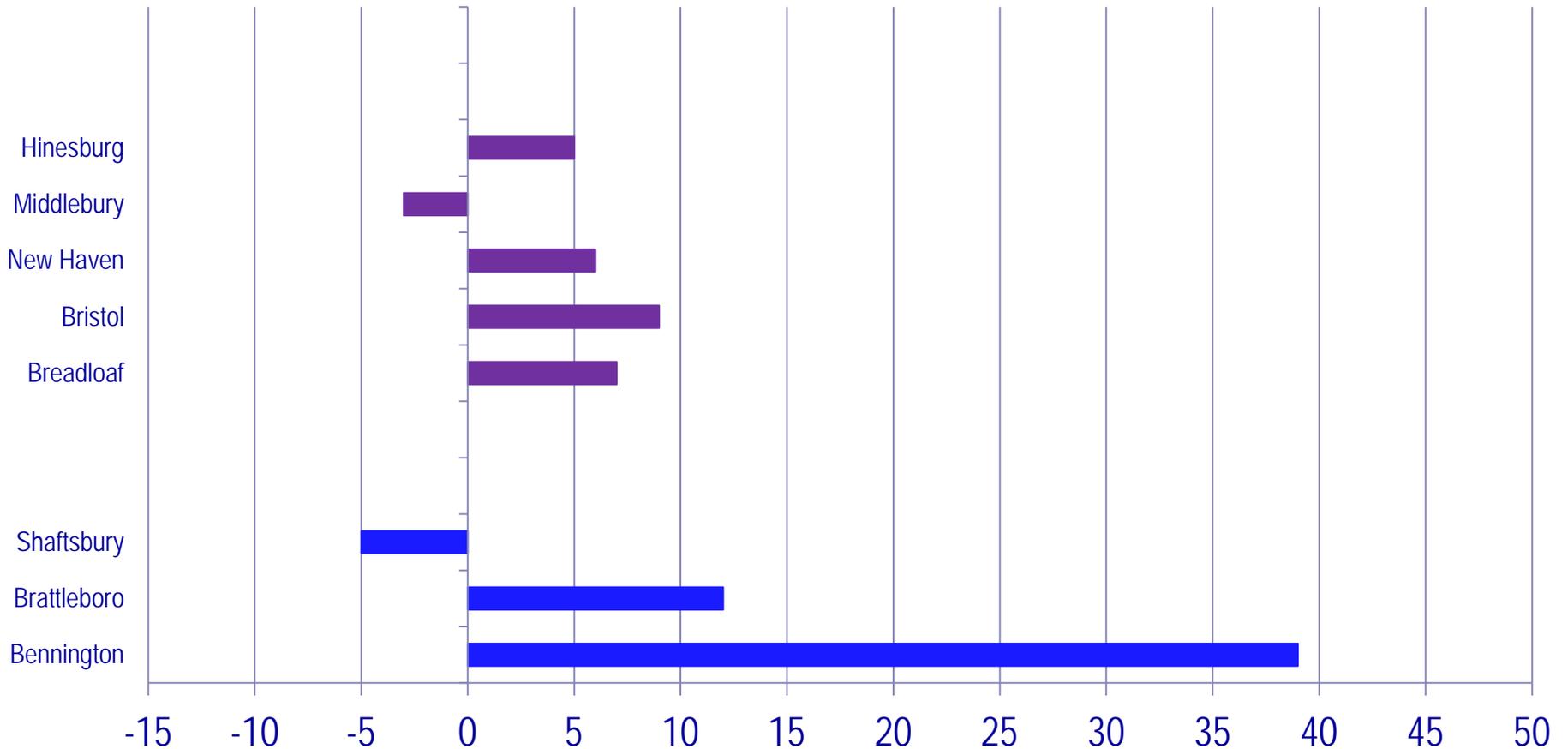


Revenue Growth related to Market Share

	Gross Revenue	Net Revenue
New Programs:		
Dr. Henley Clinic and OR	\$4,000,000	\$1,900,000
Neurology Clinic	\$820,100	\$364,000
Patient Choice:		
Orthopedic Procedures	\$4,415,600	\$1,988,000
Reduction in Transfers:		
Neurology (Inpatient)	<u>\$ 735,000</u>	<u>\$ 330,000</u>
Total	\$9,970,700	\$4,582,000



“Other” Market Share - Admission Changes 2014 to 2016 Projection





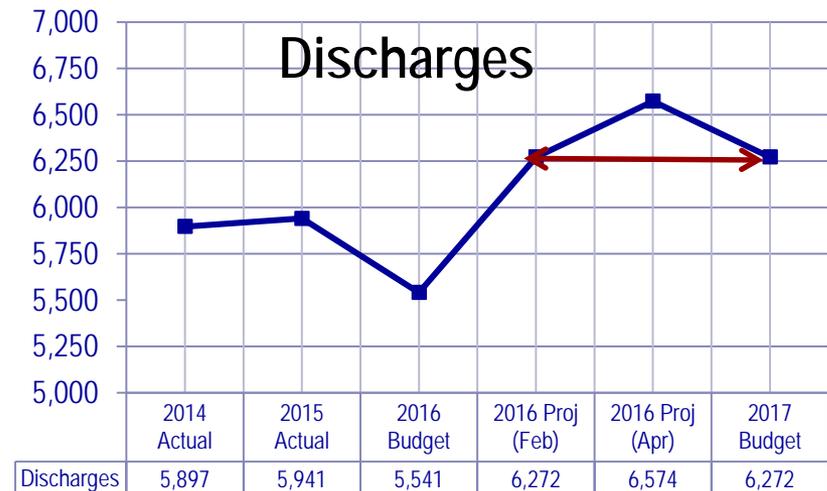
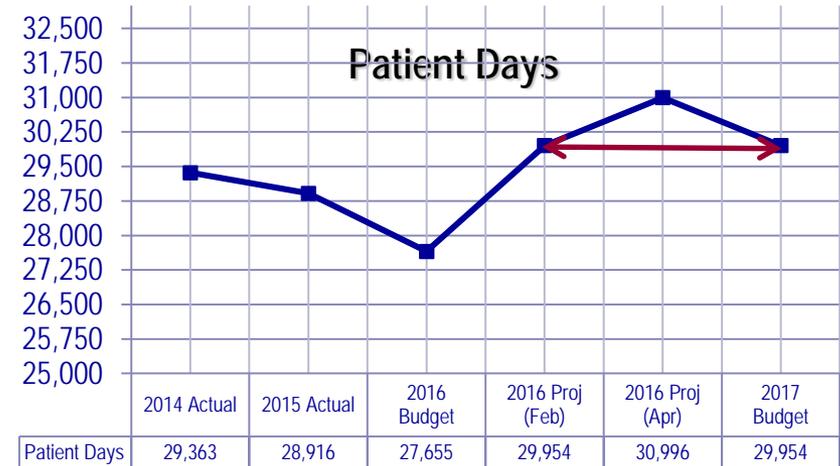
Need for Physicians

- Art and Science
- Start with physician to population ratios based on national data by specialty
- Take into account local details on ground (e.g., neurology)
- Take into account access to services for patients



Inpatient Volume Trend

- Patient days and discharges are projected based on actual volume through February 2016
 - ❖ Average Daily census 84.3
- Volume projections based on April 2016 would have increased inpatient activity by 2.8 patients per day. *Why not April as a base?*
 - ❖ Random variation.. expect not to hold heightened levels for the next 18 months
- No change in length of stay
 - ❖ Consistent with actual and Budget 2016
 - ❖ Set at 4.7 days per stay





Healthcare Reform & Community Programs

Healthcare Reform: \$950,000 annual cost

- ❑ Case Management in the Emergency Room
 - Transition care to primary care physicians
 - Reviews for appropriate admissions

- ❑ Case Management for Transition of Care from inpatient care to home
 - Care Manager follow up in home setting with “at risk” discharged patients
 - Medication management, follow up with primary care, specialists, nutrition checks, home safety checks

- ❑ Blue Print and Patient Navigators
 - Support over and above the funding provided by payors
 - Patient navigation and liaison between healthcare providers

- ❑ Medication Management
 - New service provided to patients: patients meet with a pharmacist to review and discuss medications
 - Physician ordered but non-billable service

- ❑ Clinical Social Workers in Specialty Offices
 - Endocrinology, Women’s Health, Cardiology
 - Allow for screening and support of “whole person” healthcare needs

- ❑ Member of ACO
 - Assessment Fees

Community Support: \$366,000 grant funding

- ❑ Community Grant Programs provided through the Bowse Health Trust
- ❑ Healthy Housing Collaboration



Other Operating Revenue

□ Total Revenue		\$11,017,700
▪ Pharmacy		\$5,701,500
✓ NEW: RRM Retail Pharmacy	\$1,901,200	
✓ Contracted Pharmacy 340(B)	\$3,800,300	
▪ Grants (State and Federal)		\$2,431,600
▪ Cafeteria Sales		\$908,800
▪ Board Approval of Endowment Funds		\$439,700
▪ Meaningful Use		\$414,600
▪ Rebates and Discounts		\$204,400
▪ Rutland Health Foundation – Program and Events		\$184,500
▪ Rental Income		\$179,500
▪ Gift Shop		\$127,500
▪ All Other		\$425,600



New Program: RRMC Retail Pharmacy

	Year 1	Year 2	Year 3	Year 4	Year 5
Employee Retail /30 Days (50%)	40	51	55	60	60
Employee Mail / 90 Days					
Employee Specialty (90%)	0.61	0.61	0.67	0.74	0.81
RRMC IP Discharge	2	4	5	6	7
ED and SDS	7	13	18	22	26
Outpatient	3	6	8	10	12
TOTAL RX / DAY	53	75	87	99	106

Revenue	Year 1	Year 2	Year 3	Year 4	Year 5
Employee Retail /30 Days (50%)	756,000	963,900	1,039,500	1,134,000	1,134,000
Employee Mail / 90 Days	0	0	0	0	0
Employee Specialty (90%)	874,667	874,667	960,700	1,061,071	1,161,443
RRMC IP Discharge	80,640	161,280	201,600	241,920	282,240
ED and SDS	70,560	131,040	181,440	221,760	262,080
Outpatient	151,200	302,400	403,200	504,000	604,800
OTC Sales / Gift	20,000	30,000	40,000	45,000	50,000
Net Revenue	1,953,067	2,463,287	2,826,440	3,207,751	3,494,563

Fixed and variable Expenses follow this growth, as operating margin widens:

Operating Expenses	1,909,135	2,206,560	2,430,183	2,674,334	2,838,482
Operating Margin	43,932	256,727	396,257	533,417	656,080
Operating Margin %	2.2%	10.4%	14.0%	16.6%	18.8%
Margin on Direct	43,932	256,727	396,257	533,417	656,080

- Open Monday – Friday 7am to 5pm
 - staffed by 1 Pharmacist and 2 Technicians
- Co-located with RRMC Gift Shop
 - Central location convenient for patients
 - Expansion of “over the counter” medications

Services Provided to:

- Employees
- Discharged patients
- Over the counter medications



Why a Retail Pharmacy ?

- **Controlling Employee Pharmaceutical Costs** - *Implementing a two pronged approach to reduce the cost of our employee prescriptions through opening a retail pharmacy while at the same time moving to a new pharmacy benefits manager (PBM).*
 - ❖ Rising costs of prescriptions
 - Employee pharmacy benefits require active management
 - Specialty drugs increasing exponentially
 - Pharmacy benefit covers almost 2,300 lives who received 27,000 prescriptions each year
 - ❖ Need to maximize 340B to its fullest potential
 - Incentivize our employees to use our pharmacy to receive their prescription medications, enabling us to purchase many of them at a discounted rate under 340B

- **Controlling Cost of Care at RPMC** - *As we move toward population health we are owning increased responsibility of our patients health*
 - ❖ Creates ability to discharge patients (focus on 'high risk patients') with medications in hand for compliance purposes
 - Supports the goal to reduce readmissions (CMS pay for performance metric)
 - Supports the goal to reduce healthcare costs (ACO/global budget cost control impacts)



Reimbursement Assumptions

Medicare

❖ Inpatient Rates

○ Medicare Market Basket Update	2.8%
Offsets:	
○ Affordable Care Act Required Adjustment	(.75%)
○ Productivity Adjustment	(.5%)
○ Other- MS, DRG, Quality, Coding,	<u>(.8%)</u>
○ Overall Increase in reimbursement	.75%

❖ Change in Medicare Outpatient, estimated net increase of \$338,000

- .5% increase in Outpatient rates
- 10% decrease in Lab Fee Schedule for transition to Commercial rates

❖ Change in Medicare Physician

- .5% increase in fee schedule reimbursement effective 1/1/2017 – Consistent with the final Regulations

❖ Overall Medicare

- Value Based Purchasing for inpatient quality reporting is a net gain of \$37,000.
- The 2% reduction for sequestration continues from 2014 for both inpatient and outpatient reimbursement



Net Revenue Change by Payer

	<u>Rates</u>	<u>All Other</u>	
■ Commercial	(\$ 7,195,518)	\$ 5,316,289	Rates: Planned Rate Decrease (5.1%) Other: Market Share, physician transfers and increased utilization
■ Medicaid	0	(\$ 5,544,226)	Rates: No Change Other: Payer mix decreased to Fiscal 2015 levels. No expected change in Medicaid reimbursement in Fiscal 2017
■ Medicare	0	\$ 13,822,737	Rates: No Change Other: Payer mix higher than expected, market share and increased utilization.
■ Bad Debt & Free Care	0	\$ 3,767,998	Rates: No Change Other: Continued enrollment in the Health Care exchange, increased collections from 3 rd party collection agency. 2017 Budget consistent with 2016 projection



Reimbursement Assumptions

Medicaid

- ❖ **Inpatient rates:** No change

- ❖ **Outpatient and physician services:** Reduction in reimbursement due to Provider Based Billing regulation changes
 - Based on the Financial Model provided by the State: Elimination of Provider Based billing for hospital clinics, net reimbursement of \$1.3 million
 - Estimated to decrease reimbursement by \$1.5M offset by increase in physician reimbursement for \$200,000

- ❖ **Disproportionate Share program**
 - Bed Tax (6% of Net Revenue): \$14.3 million
 - Assumes DSH reimbursement (based on 2015 actual): \$5.7 million
 - \$1.5 million increase from last year



Reimbursement Assumptions

Commercial

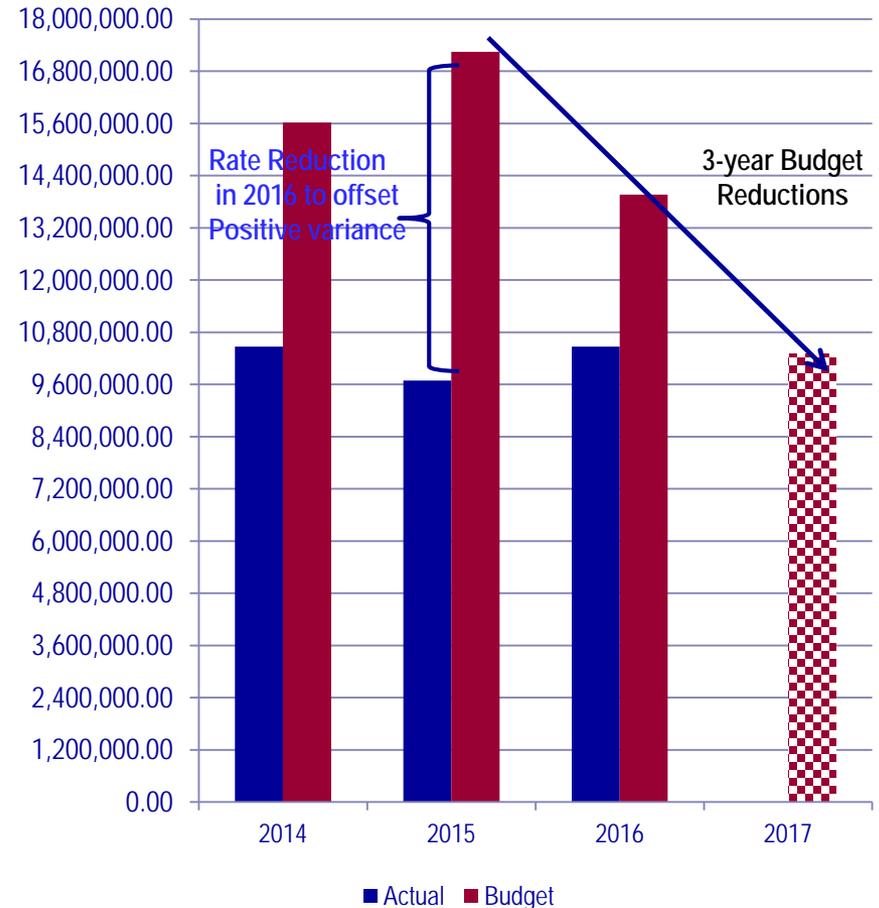
- ❖ Contracts with no change
 - MVP
 - Multiplan
 - Aetna
- ❖ Blue Cross – small additional discount
- ❖ United Healthcare – New contract amendment for Medicare Advantage members

- ❖ Current Challenges:
 - GE chose a preferred provider for major joints in Georgia
 - If employee chooses Rutland they pay the cost difference between Rutland and Georgia
 - Blue Cross would like Rutland to participate in a payment bundle
 - Major joints, Obstetrics
 - MVP continues to request deeper discounts



Providing Reserves for the Uninsured

- ❖ RRMC has continually outperformed collection assumptions for bad debt
 - Over the past 3 years (2014-2016) the actual reserve for our uninsured has been \$16.2 million less than what we budgeted
- ❖ In 2015 and 2016 uninsured collection assumptions too conservative
- ❖ Reduced the Uninsured Reserve for a 2nd year in a row to better align with actual performance
 - Continued enrollment in the Health exchange
 - Strong collection performance from our 3rd party “early out” collection agency





EXPENDITURES...



Physicians and Advanced Practice Providers

	Physician	Advanced Practice
Cardiologists (<i>Coleman</i>)	1.0	
Neurology (<i>Brittain and Sweet</i>)	2.0	
Hospital Medicine (<i>Meyers</i>)	1.0	
Infectious Disease (<i>Cotter</i>)	1.0	
Psychiatry & Addiction (<i>TBD</i>)	.8	.8
Sleep Medicine (<i>Vacant</i>)		.9
Physiatry (<i>Vacant</i>)		1.0
General Surgery (<i>Vacant</i>)		1.0
ENT (<i>FTE Increase: Rohrer</i>)		.2
Medical Staff Administration (<i>Retirement: Holland</i>)	(.5)	
Orthopedics (<i>Retirement: Hollinshead</i>)		(1.0)
Breast Care (<i>Transfer from RN Position: Vacant</i>)		1.0
Employee Wellness – Transfer to Leader (<i>Becker</i>)		(1.0)
Oncology – Transfer to Leader (<i>McKenna</i>)		<u>(1.0)</u>
Total	5.3	1.8

Summary:

2016 Budget	65.7	27.4
New Providers (Listed Above)	<u>5.3</u>	<u>1.8</u>
2017 Budget	71.0	29.2



FTE and Salary Changes

	FTE	Salary
Budget 2016	1,191.3	\$73,162,600
New Positions	38.3	\$2,374,700
Elimination of Lag Time	11.0	\$ 563,600
Unbudgeted in 2016 (Professional Study/Clinical Admin)	5.2	\$ 345,600
Increase in New RN Grad Orientation	3.5	\$ 198,600
Advanced Providers Management Transfer	2.0	\$ 234,000
All Other	3.2	\$ 156,000
Merit Market		\$2,003,000
Grade/Skill Mix / Premiums	—	<u>\$ 204,500</u>
Total Changes	63.2	\$6,080,000
Budget 2017	1,254.5	\$79,242,600



New Positions By Justification Type

Position with Payback / Grant Funding	6.4
Retail Pharmacy	3.0
Gift Shop	1.3
Community Health	2.1
Compliance	.8
Pharmacists and Technicians (340b)	.80
Patient Satisfaction / Patient Safety	9.7
Patient Safety (Sitters)	5.5
Core Staffing Change 3 rd Shift – RN	2.1
Core Staffing Change 3 ^{ed} Shift – LNA	2.1
New Providers:	3.8
Neurology	3.8
All Other	17.6
Registered Nurses (Ancillary)	3.0
Diagnostic Imaging	1.0
Clinics:Med Asst / Front Office Assist	4.7
Rehab Therapists / Assistants	5.2
Bio Med Technician	1.0
Patient Educator	.5
Clerical staff / Other	2.2
Total New Positions	38.3



Non-salaries Expense Changes

Budget to Budget Increase	\$141,100	
Increases:		
Information Systems (Including IT Works)	\$281,700	Annual increase on contract
New Programs	\$198,700	Dorset Expansion (Rent)
Echocardiology	\$180,100	Service Contracts
Diagnostic Imaging	\$156,000	Radiology IT Support and
Maintenance		
Human Resources	\$149,700	BSN Program
Chemistry	\$111,000	Supplies
Decreases:		
Maintenance of Plant	(\$400,000)	Transition to Natural Gas
Cardiac Cath Lab	(\$382,100)	Equipment Service Contracts
Westridge	(\$243,900)	Pharmaceuticals
Blood Bank	(\$243,300)	Blood product
All Other Net Increases	\$333,200	



Fringe Benefits Changes

Budget to Budget Increase **\$1,543,000**

Increases:

- Health Insurance (net of contributions) **\$1,384,995**
 - Employee contribution percentage set at 25% (no change)
 - Increase in claims discount 35% to 42%
 - Includes 8% Trend factor for all claims outside of Rutland
 - Rutland domestic claims based on our recent rate reductions
 - Status Quo Benefits
 - Introduce a high deductible plan with (5% migration)

- FICA (FTE related) **\$ 152,700**
- Vacation Time Accrual (3% increase in salaries) **\$ 135,000**
- Workers Compensation (claims related) **\$ 119,000**
- All Other Benefits **\$ 272,100**

Decreases:

- DB Pension Expense **(\$ 520,800)**
 - Discount Rate is 3.75% (last year 3.65)
 - Mortality table updated in 2015 (RP2015)



Administrative Cost Changes

Budget to Budget Increase **\$330,000**

Increases:

Disproportionate Share Tax (6% of Net Patient Revenue) \$833,300

All Other Increases \$138,000

Decreases:

CHCRR Subsidy (Based on Contract) (\$443,400)

Insurance Expense – Continued decline in claims (\$197,900)



Operating Margin

- We have budgeted a 2.5% operating margin
 - Consistent with 2016 Budgeted Levels

- Operating Margin of \$5.9 million supports:
 - Funding defined benefit pension plan - \$2 million
 - Principal payments on debt - \$1.2 million
 - 3rd party settlements - \$1.0 to \$3.0 million
 - Reinvestment in Capital
 - ◆ Depreciation Expense is \$13.1 million
 - ◆ Goal to spend at least 1.2X our deprecation expense
 - ◆ Estimated 2017 Capital Funded by Equity \$16.3 million



Capital Budget



2017 Capital Budget

Routine Capital

PC Device Refresh	\$	884,000
Endoscopy Scope Replacement	\$	800,000
Diagnostic Imaging MPI Room	\$	650,000
Diagnostic Imaging Mammography Units (Qty 2)	\$	650,000
TV System Upgrade	\$	600,000
Behavioral Health EMR (IP and OP)	\$	518,000
Window Replacement	\$	500,000
Operating Room - BrainLab Navigation ENT and Orthopedics	\$	500,000
Chemistry Analyzers to replace VISTA	\$	500,000
Anesthesia Machines (Qty 7)	\$	368,000
Ventilator Machines	\$	350,000
Diagnostic Imaging CT HD Console Upgrade (MBIR)	\$	300,000
Refurbish ACU	\$	270,000
Miscellaneous Capital (Items < \$250,000 each)	\$	2,964,000
<hr/>		
Total Routine Capital Budget FY 2016	\$	9,854,000

Unapproved CoNs

Medical Office Building	\$	27,375,000
Loading Dock	\$	3,500,000
Nuclear Medicine	\$	2,200,000
Total Capital Budget	\$	<u>42,929,000</u>



Community Health Assessment Summary Focus

Factor	Key issues to address	Importance
Clinical Care	<ul style="list-style-type: none">➤ Mental health and substance abuse services for adults and youth➤ Recruitment and retention of primary care providers, both medical and dental	<ul style="list-style-type: none">✓ To continue to address the drug problem in our community, through treatment, aftercare and prevention.✓ To continue to improve access to care for all community members.
Healthy Behaviors	<ul style="list-style-type: none">➤ Life skills for youth➤ Physical activity for and by adults and youth	<ul style="list-style-type: none">✓ To improve promote healthy choices and activities to support a healthy community in which to live and raise a family.
Social & Economic Determinants	<ul style="list-style-type: none">➤ Recruitment and retention of businesses and people to the area➤ Societal culture building➤ Educational attainment	<ul style="list-style-type: none">✓ To improve the health and well-being of our community, making it an attractive place to live and work.
Physical Environment	<ul style="list-style-type: none">➤ Housing➤ Transportation, vehicular	<ul style="list-style-type: none">✓ To improve infrastructure to support a healthy community with access to work, recreational opportunities, and services.



Relationship to Mental Health and Community Providers

■ RMH

- New leadership
- Improved relationships
- Impact on length of stay for inpatient
psych/ED holds

■ RAVNAH

■ CHCRR