

NARRATIVE FOR BUDGET 2016 SUBMISSION  
JULY 02, 2016

Executive Summary

North Country Hospital has been experiencing an increase in utilization, and in turn has increased its operational budget from FY 2016 by 6.60% or \$5,285,813. The FTE budget has been increased by 3.08% or 14.90 FTEs.

Health Reform Investments

\$646,524 of operational expenses have been budgeted for health care reform and include an ACO Director, Data Analyst, ACO fees and depreciation expense on capital purchases focused on Health Care Reform. There have been capital investments in FY 2016 which include investments in Information Systems that are geared towards the ACO and health care reform (DB Motion software, Dragon Medically Speaking (Phase II)) as well as capital building improvements to shift towards a Blue Print model for one of our Primary Care buildings. 2017 capital improvement estimate is \$3,300,000 and 2017 Budget for Information Systems related to health care reform is \$300,000 which totals \$3,600,000. The return on investment has not been established yet.

Overall Budget Net Patient Budget to Budget Increase

The net patient revenue for North Country Hospital has increased 6.00% from Budget 2016 to Budget 2017. The net patient revenue increase is a result of higher utilization, primarily in outpatient services. Utilization estimates were based on current utilization.

There is an increase of \$2,272,008 in cost of goods for non 340b pharmaceuticals. This is 49.5% of our total net revenue increase and contributes to the 6.00% increase in net patient revenue.

North Country Hospital is requesting a 3.48% increase to gross charges. This increase is needed to meet operating expenses and allow us to have a net operating profit margin of 1.33% to reinvest into the facility.

In regards to inflation estimates, salaries were increased 2.00%, benefits were increased 2.00%, insurances 2.00%, and all other applicable non salary by 2.00%.

Utilization, inflation and revenue assumptions by payer:

Utilization:

Utilization is analyzed in total, utilization projections are done without the payer being part of the initial analysis. Once we have projected a volume for utilization that volume is then spread over the payers based on the current payer mix.

### Inflation:

Rate increase is applied evenly across all gross charges. Inflation was not applied to physician practices.

### Revenue assumptions by payer:

**Medicaid** – Rate increase is applied to all charges. Inpatient Medicaid revenue is reimbursed by DRG and outpatient is reimbursed by APC or fee schedule. Therefore, an increase in gross charges does not result in any additional net revenue. The net percentage is based on the most recent percentages we have calculated at the time budget is prepared. In regards to payer mix percentage from budget 16 to budget 17, Medicaid's percentage of payer mix has decreased by 1.90% in total. The reimbursement percent for Medicaid has increased by 2.36%.

**Medicare** – Rate increase is applied to all charges. Inpatient Medicare is reimbursed by a per diem rate under our Critical Access Hospital reimbursement structure. Therefore, an increase in gross charges does not result in any additional net revenue. Outpatient Medicare is reimbursed by percent of charge so net revenue does increase when the gross charge increases. In regards to the assumptions we use for the net percentages, we consult our cost report preparers to provide us with an estimate as to what effect the most recent filed cost report would have on our current reimbursement rates for the budget year. Payer mix from budget 16 to budget 17 for Medicare has increased 2.07% in total. The percent reimbursement for Medicare has decreased 2.25%.

**Commercial/Self pay/other** – Rate increase is applied to all charges. Inpatient and outpatient charges for these payers do have an increase in net revenue when the gross charge increases. Commercial, self pay, and other net percentages are based on the most current reimbursement percentages we have calculated at the time budget is prepared. Commercial payer mix has increased in total by .48% and self pay and other payers have decreased by .65%. Commercial reimbursement has decreased 1.14% which is a combination of lower reimbursement by payers and rate increase. Self pay and other reimbursement has increased by 7.86% (not including a \$358,333 reduction in disproportionate share payments).

There is no revenue included in the 2017 budget for meaningful use funds.

### Rate Request

Please refer to requested worksheet.

### Capital Budget Investments

The total requested Capital Budget is \$3,600,000 which includes 23.14% of Information Technology improvements. In addition, 8.05% of the budget is required for compliance in our Pharmacy related to new chemotherapy regulations.

### Technical Concerns

North Country Hospital does not have any technical concerns with the Adaptive planning site and budget submission process at this time.

### Community Health Needs Assessment

The Community Health Needs Assessment has been posted to our website, and was recently updated and reviewed by our Board.

### Outpatient Visits

For the Budget, Outpatient registrations/visits are ER, SDS, Observation, OPD (outpatient testing), infusion series, Lab series, Rehab series (only when the series is discharged) discharges for various departments. Budget is prepared by using an actual rate of test/registrations over a period of months and applying that rate to budgeted registrations