Brattleboro Memorial Hospital
EXCEPTIONAL CARE FOR OUR COMMUNITY

July 5, 2016

Michael Davis, Director of Cost Containment
Green Mountain Care Board
89 Main Street Drawer 20
Montpelier, Vermont 05602-3601

Dear Mike,

The Board of Directors has approved the attached budget. The following narrative addresses the salient issues in our budget. Please call to discuss any concerns you may have.

A. Executive Summary

1. Financial Benchmarks

- Net patient service revenues are budgeted to increase 3.4% from the Fy2016 budget.
- Rate request is a 3.5% aggregate rate increase.
- Operating expenses are budgeted to increase 5.1% from the Fy2016 budget.
- The Operating Margin is budgeted at 0.2% compared to -0.02% budgeted for FY2016.

2. Patient access:

As discussed in prior years, we have been responding to the challenges of maintaining appropriate levels of primary and specialty care physician access for our communities. BMH is currently exploring areas of enhancing efficiencies and improving access in the practices by looking at staffing ratios, increased use of mid-level providers, adding scribes, care coordinators, and centralizing healthcare services such as scheduling new patients, triage, referral management and prescription refills.

3. 340b Retail Pharmacy:

We will be expanding our participation in the 340b drug discount program to encompass retail pharmacies. We become eligible to begin the program on October 1, 2016. The fees collected are reported as other operating income and the expenses are incorporated into the various operating expenses categories. We expect a net income from this operation of approximately $600,000.

4. Acuity adaptable unit – Progressive Care Unit:

BMH will be combining the current 20 bed Third Floor Medical-Surgical Unit and the 5 bed Special Care Unit (ICU), creating an 18-22 bed Progressive Care Unit. This single unit will provide the same levels of care BMH currently provides to our patients. Patients will stay within the same unit as their condition improves, providing for a more streamline hospital stay. The single unit combines two separate nursing staffs resulting in improve efficiency for staffing, shared patients and acuity adjustable patient assignments. FTE's were trimmed through attrition as the needs of the combined unit were assessed.

B. Healthcare reform:

Healthcare reform investments	Budget 2017
Expanded use of Scribes	119,808
ER Case Management	174,463
Vulnerable Population Care Coordinator	34,079
West River Valley Transportation Subsidy	12,375
	340,725

1. **Staffing in the Emergency Department**
   Staffing in the Emergency Department is being adjusted to include an additional FTE for oversight of patient flow, with one focus being on the appropriate care, care planning, community resource communication and disposition of psychiatric patients who do not present to the ED with medical issues. The flow and provision of care of all ED patients will be of consideration in this role so as to lessen time delays for those patients requiring medical care due to ED resources being focused on psychiatric patient needs.

   We have also developed a position for a full time RN Care Manger in the Emergency Department. The Care manager will facilitate effective longitudinal community-based care and provide evidence-based interventions for a varied patient population.

   Three high risk patient groups have been identified for interventions:
   - Children/ adolescents;
   - Frail, community -dwelling elderly
   - Patients diagnosed with mental health and/ or substance abuse disorders.

   Care managers working with panels of high-risk patients will:
   - Provide high quality, evidence- based care to enrolled patients;
   - Improve access to primary and specialty care/ services;
   - Coordinate care across providers/ programs and settings;
   - Engage patients in setting and achieving health-related goals;
   - Monitor and track health outcomes.

2. **Expanded Scribe Positions**
   Scribes (3) are being added as staff to the primary care clinicians to improve their efficiency during the patient encounter. This will enable clinicians to see more patients thus improving access. This model also improves clinician and patient satisfaction.

3. **Vulnerable Population Care Coordinator**
   The Vulnerable Population Care Coordinator will work closely and collaboratively with the Groundworks Collaborative case managers as well as all members of the Community Health Team. Supervision of the Vulnerable Population Care Coordinator will be done by the Director of Community Initiatives/Blueprint Project in consultation with the Groundworks Collaborative Executive Director.

4. **West River Valley Transportation Subsidy**
Excerpted from the BMH 2015 Community Health Needs Assessment Implementation Plan:

> *"Vermont's road conditions are often a barrier to healthcare access. Within Windham County there are 1487 miles of roads with 868 (58%) not paved. More Windham County residents live on dirt roads than on paved roads, making travel especially difficult during the five winter months. The Windham Region Mobility Study (November 2012) prepared for the Windham Regional Commission by Steadman Hill consulting, Inc. with the assistance of Diane Wahle, Collaboration and Planning consultant of TranSystems focused on the coordination of transportation services to improve mobility for all of the Windham region's residents. The study reported transportation as "one of the main challenges faced by youth and older adult populations, as well as, low-income families that cannot afford an automobile is mobility." BMH recognizes that transportation is a problem for the communities it serves. Barriers to adequate transportation impact the communities' access to healthcare, as well as, quality of life."*

We have committed to help fund Southeast Vermont Transit for a proposed schedule of service Tuesday-Thursday from 8:30 am – 3:30 pm for door to door service for clients from their homes to our Grace Cottage and BMH from towns along the Route 30 corridor.

C. Net Patient Revenue Budget to Budget changes

1. **Net Patient Service Revenues** (NPSR) increase 3.4% from the Fy2016 budget. The overall reimbursement rate improves to 48.5% of gross revenue from 47.9% from the FY2016 budget.

	Budget 2017		Budget 2016		change from prior budget	
Gross patient service revenue	157,473,555	100.0%	154,417,865	100.0%	3,055,690	2.0%
Deductions from revenue						
DSP	976,889	0.6%	889,343	0.6%	87,546	9.8%
Bad Debt & Free Care	(8,000,071)	-5.1%	(8,140,227)	-5.3%	140,156	-1.7%
Deductions from revenue	(74,041,761)	-47.0%	(73,270,830)	-47.4%	(770,931)	1.1%
Net patient service revenue	76,408,612	48.5%	73,896,151	47.9%	2,512,461	3.4%

2. **Reimbursement:**

- **Medicare** reimbursement is budgeted based on the inpatient PPS proposed rule for Fy2016 and current reimbursement of outpatient and physician offices.. The overall Medicare net as a percent of gross is projected to increases to 39.9% compared to 37.8% budgeted for fy2016.

Medicare	Budget 2017	% of gross	Budget 2016	% of gross	change from Fy16 budget	
Revenue	66,907,656	100.0%	67,733,967	100.0%	(826,311)	-1.2%
deduction	(40,240,006)	-60.1%	(42,137,353)	-62.2%	1,897,347	-4.5%
net	26,667,650	39.9%	25,596,614	37.8%	1,071,036	4.2%

Medicare Dependent Hospital (MDH) and Low Volume Provider (LVP) provisions have been restored until September 30, 2017.

- **Medicaid** reimbursement rates have been budgeted on our understanding the evolving reimbursement rates. We are assuming no Provider based clinic billing for Medicaid along with a corresponding increase in the outpatient payment rate. The Medicaid net as a percent of gross is being budgeted to decrease to 34.3%, compared to the 30.2% budgeted for fy2016.

Medicaid	Budget 2017	% of gross	Budget 2016	% of gross	change from Fy16 budget	
Revenue	33,034,042	100.0%	29,405,467	100.0%	3,628,575	12.3%
deduction	(21,700,040)	-65.7%	(20,513,006)	-69.8%	(1,187,034)	5.8%
net	11,334,002	34.3%	8,892,461	30.2%	2,441,541	27.5%

- The net to gross rate for Commercial and all other payers is being budgeted at 79.0% compared to 81.5% budgeted for fy2016.

Commercial & Others	Budget 2017	% of gross	Budget 2016	% of gross	change from Fy16 budget	
Revenue	57,531,857	100.0%	57,278,434	100.0%	253,423	0.4%
deduction	(12,101,715)	-21.0%	(10,620,471)	-18.5%	(1,481,244)	13.9%
net	45,430,142	79.0%	46,657,963	81.5%	(1,227,821)	-2.6%

- **Bad debt** is budgeted at 3.1% of gross revenues and **Free care** at 2.0%. These rates are slightly less than budgeted last year and less than we are experiencing this year. BMH provides charity care for patients with income up to 350% of the federal poverty level.

	Budget 2017	% of gross	Budget 2016	% of gross	change from Fy16 budget	
Gross Patient Service Revenue	157,473,555	100.0%	154,417,865	100.0%	3,055,690	2.0%
Bad debt	(4,842,195)	-3.1%	(5,026,252)	-3.3%	184,057	-3.7%
Free Care	(3,157,876)	-2.0%	(3,113,975)	-2.0%	(43,901)	1.4%
BD & FC combined	(8,000,071)	-5.1%	(8,140,227)	-5.3%	140,156	-1.7%

- **D**isproportionate **S**hare **P**ayments (DSP) are budgeted at the level calculated by OVHA for sfy2017.

	Budget 2017	Budget 2016	change from Fy16 budget	
DSP	976,889	889,343	87,546	9.8%
Provider tax	4,379,509	4,284,133	95,376	2.2%

3. Expenditures:

Overall operating expenses are budgeted to increase $3,855,632 (5.1%). After removing the provider tax increase, health care reform investments and the new costs to run the 340b retail program, costs increase by 2.8% from the level budgeted for Fy2016.

Operating expenses	Budget 2017	Budget 2016	Change	%
Wages (non physician)	25,111,884	24,494,818	617,066	2.5%
Fringe Benefits (non physician)	6,982,929	7,432,385	(449,456)	-6.0%
Physician services & fringes	15,999,836	14,828,405	1,171,431	7.9%
Other expenses	23,072,555	20,606,892	2,465,663	12.0%
Depreciaion	4,411,523	4,371,699	39,824	0.9%
Interest	165,520	249,792	(84,272)	-33.7%
Provider tax	4,379,509	4,284,133	95,376	2.2%
Total operating expenses	80,123,756	76,268,124	3,855,632	5.1%
less Provider tax increase	(95,376)			
less healthcare reform investments	(340,725)			
less 340B retail program operating expenses	(1,300,000)			
	78,387,655	76,268,124	2,119,531	2.8%

4. Other operating revenues:

BMH expects to continue to achieve meaningful use of the EMR for the hospital and our physician practices. We have budgeted to receive meaningful use incentive payments of $174,540 as other operating income in FY2017 down from $527,959 budgeted in FY2016.

The Retail 340b program is expected to generate $1.9 million of other operating revenue and $1.3 million of operating expenses.

D. Rate Request

Gross revenues decrease 1.5% from last year's budget before changes in rates. The proposed rate change for FY2017 will increase gross revenues by $5,308,552 (3.5%). The charges for most revenue centers are projected to increase 5.0%. The markups for the Med/Surg supplies, drugs and charges for Physician services will not be increased.

Revenues	FY2017 Proposed Budget	FY2017 - before rate increase	Variance from current rates		FY2016 Budget	FY2017 before rate increase - variance from Fy2016 budget	
Imaging	32,962,163	31,392,536	1,569,627	5.0%	30,032,655	1,359,881	4.5%
Physician Practices	19,229,160	19,229,160	(0)	-0.0%	20,985,619	(1,756,459)	-8.4%
Perioperative & anesthesia	21,370,617	20,352,968	1,017,649	5.0%	20,643,056	(290,088)	-1.4%
Lab	16,659,589	15,866,275	793,314	5.0%	16,294,996	(428,721)	-2.6%
Emergency Room	13,894,000	13,232,381	661,619	5.0%	14,906,324	(1,673,943)	-11.2%
Drugs & IV Therapy	16,929,734	16,889,306	40,428	0.2%	14,878,257	2,011,049	13.5%
Med / Surg / SCU	12,352,598	11,764,379	588,219	5.0%	12,883,120	(1,118,741)	-8.7%
Medical / surgical supplies	5,549,204	5,549,204	0	0.0%	5,625,505	(76,301)	-1.4%
ER & Hospitalist Physicians	4,474,671	4,474,671	0	0.0%	4,944,558	(469,887)	-9.5%
Clinics	4,091,924	3,928,509	163,415	4.2%	4,238,083	(309,574)	-7.3%
Birthing Center	4,416,689	4,206,371	210,318	5.0%	3,664,393	541,978	14.8%
Rehabilitaion services	3,629,327	3,456,502	172,825	5.0%	3,495,574	(39,072)	-1.1%
Reaspiratory, EKG, EEG	1,913,879	1,822,741	91,138	5.0%	1,825,725	(2,984)	-0.2%
	$157,473,555	$152,165,003	$5,308,552	3.5%	$154,417,865	($2,252,862)	-1.5%

E. Considerations from the GMCB FY2015 actual to budget review

Our 2015 actual results exceed our budget, largely due to Medicare reimbursement uncertainties.

1. Our 1.4% rate reduction for 2016 anticipated MDH & LVA reimbursement for the complete year.
2. In FY2016 CMS has reopened the $2.8 Million Volume Decline Appeal settlement from FY2009 and has communicated that we will have to give back up to $1.1 million to Medicare.
3. FY2015 Budgeted operating margin was very low at 0.27%.
4. We are currently projecting an operating loss for Fy2016.
5. We have included a full year of MDH & LVA reimbursement for FY2016 and fy2017.
6. We are proposing an aggregate 3.5% rate increase for FY2017 and a 0.02% operating margin.
7. We are continuing to experience increases in Medicaid volume and gross revenue.

	Budget 2017		Budget 2016		change from prior budget	
Gross patient service revenue						
Medicare	66,907,656	42%	67,733,967	44%	(826,311)	-1%
Medicaid	33,034,042	21%	29,405,467	19%	3,628,575	12%
Other	57,531,857	37%	57,278,434	37%	253,423	0%
	157,473,555	100%	154,417,868	100%	3,055,687	2%

8. Operating margin:

The operating margin is budgeted to remain at a very low level (0.2%) in recognition of the need to hold down health care costs to our community.

	FY 2017 Budget	FY 2016 Projected	FY 2015 Actual	FY 2014 Actual	FY 2013 Actual	5 year Cumulative total
Net Revenue	80,281,708	75,615,756	78,669,021	75,309,785	69,463,138	379,339,408
Operating gain	157,952	(1,266,933)	2,196,008	2,697,579	2,348,409	6,133,015
Operating margin	0.2%	-1.7%	2.8%	3.6%	3.4%	**1.6%**

Over a longer time frame, our objective is to maintain an average operating margin of at least 3%. At this point we have dropped to a 1.6% 5 year margin. This level of return does not represent a sustainable return for such a capital-intensive operation as a community hospital. **More than anything else**, inadequate reimbursement from Medicare and Medicaid is driving the cost shift and this low level of margin. If reimbursement levels decline further, this hospital will be unable to maintain a reasonable margin and that will ultimately challenge our continued existence.

F. Capital Budget

The capital budget for FY2017 is $2.8 million. There are no items included in FY2017 in excess of $500,000. There is one project that will require a CON included for 2018.

1. In Fy2018 BMH is investigating replacing our existing surgical suites to comply with current codes and surgical standards for size, configuration and equipment. We will also need to provide space for dislocated functions and offices and replace our aged boiler plant. The projected cost ($20.0 million) for this project is based on very preliminary estimates and better information will be included when the CON applications are prepared.

2. **Transfers to parent organization and other organizational changes**

   We have budgeted a transfer of $150,000 from our parent organization in FY2017. These are the projected proceeds from the community fund drive to rebuild the Emergency Department.

G. Community Health Needs Assessment (CHNA) status

We recently completed our CHNA update. It is available on our website and we have uploaded it to your files..

Summary

Our Mission is to provide community based, quality health services delivered with compassion and respect. Our Vision is to provide the best patient experience for every patient, every time and to be the best place to work for employees, volunteers and medical staff". This budget will allow BMH to continue to serve that mission and vision in a responsible and cost efficient manner.

If you have any questions, please feel welcome to call me.

Sincerely,

Michael O. Rogers
Vice President - Finance
(802) 257-8279