

Porter Hospital

FY 2017 Budget Submission

Executive Summary:

Porter Hospital has prepared what is essentially a status quo budget for FY 2017, which reflects stabilization from the significant operational disruption to both leadership and the provider core of our organization which occurred during the past 12 months. Despite this disruption, we approached this budget process with a strong sense of re-commitment to our mission, to caring for our community and staff and to our fundamental responsibility of leading Porter Medical Center on a strategic path forward as a partner in healthcare reform.

The financial performance of Porter Hospital, for our current fiscal year as well as our planning for FY 2017, has been defined by a series of sentinel events that have been well-publicized and have had a profound impact on our organization. These events include:

- The unanticipated departure of both our President/CEO and our Chief Nursing Officer
- The departure of approximately 20% of our employed providers—focused primarily on the ranks of our primary care network
- Higher than anticipated nursing staff turnover (approximately 40%)
- Commensurate expenses for overtime/temporary labor and severance packages

During the three months following the culmination of these events (April - June), our organization has been focused on rebuilding our primary care network of providers, stabilizing our nursing staff and addressing clinical issues in each of the major clinical areas of the hospital, reaching out to our external community and engaging our patients via forums, newspaper articles and small group conversations, and preparing our organization for a strategic path forward. This includes exploring both independent and affiliation scenarios predicated on the further development of population health and payment reform activities and the opportunities that these might present for Porter Hospital.

It is Porter's intent to carefully and thoughtfully improve our financial position over time. This budget represents our initial steps in that direction. Based on this approach, our FY 2017 budget contains modest assumptions for volume growth and a price increase proposal which is consistent with our requests over the past few years. If we are able to achieve the assumptions in this budget, Porter Hospital will produce a total margin of 4.9%, sufficient to support capital re-investment of approximately \$4.0M and a modest increase of 3.8 days cash on hand for the PMC system as we make incremental progress toward strengthening our balance sheet.

Contained in these assumptions are a few key operational and strategic priorities that we will focus on during FY 2017. These priorities include the following:

- Continue to re-build our Primary Care Network of Providers and employee morale with a goal of returning to a more "normal" rate of provider turnover;

- Continue our work toward improved financial performance for our Porter Medical Group (network of practices);
- Ensure all patient care areas are staffed and equipped to provide the highest quality patient care, and mitigate our current dependence on temporary nursing labor;
- Address our declining financial performance at the Helen Porter Nursing and Rehabilitation Center including right sizing, reviewing services and payer mix, and improving the efficiency of operations. Note that this impacts Porter Hospital in that continued financial support is currently requiring a draw of approximately 9 Days Cash on Hand for both FY 2016 and FY 2017.

Beyond our operational imperatives, we are in the midst of a strategic planning process and community engagement initiative to chart the future direction of our organization to ensure that we continue to fulfill our core mission “To improve the Health of our Community” within the challenging and changing environment of health care reform and population health. We expect this process to lead us to a decision regarding remaining an independent organization or partnering with a larger health network. This decision, like every decision we make, will be informed by what is best for Porter Medical Center and the patients we serve. We are caring for our staff and our community and, in return, receiving their overwhelming support.

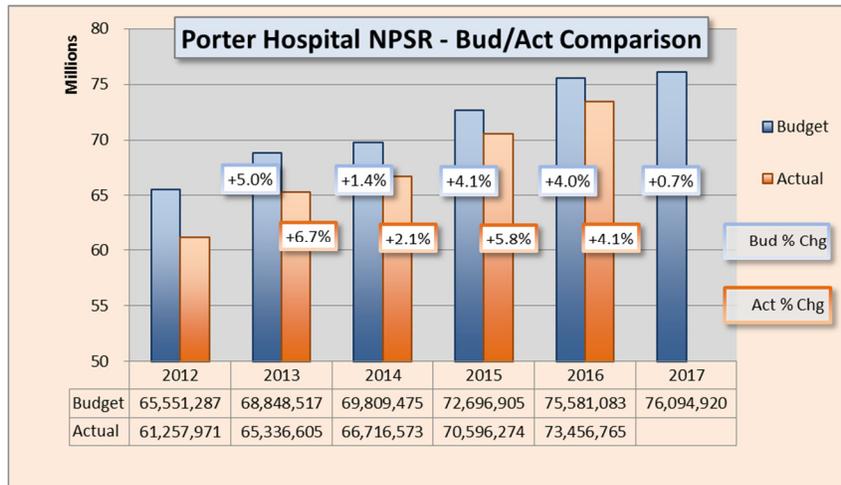
Health Reform Investments:

Porter has elected to participate in the Vermont Care Organization Shared Savings Program (“non-risk” Population Health) for CY 2017. We plan to continue our active participation, and to learn from those who have elected to participate in “Next Gen” so that we can prepare ourselves for participation in CY 2018. We believe that rebuilding our primary care network and increasing our focus on the work of our Blueprint staff and care coordinators will contribute to our potential success in a future risk based model. We will continue to seek opportunities for our administration to actively participate in appropriate committees and workgroups so that we might contribute to and stay current on this dynamic agenda.

As part of our efforts to further prepare for population health and future payment systems, Porter Hospital welcomes two new board members, each representing two very key services in Addison Community. They are Bob Thorn, Executive Director for The Counseling Service of Addison County and Sherry Greifzu, Executive Director and Director of Clinical Services for the Addison County Home Health and Hospice. We anticipate that these additions will lead to the development of continually improving clinical integration within our service area.

Net Patient Service Revenue:

Porter is requesting a 0.7% increase in Net Patient Service Revenue vs. the Budget for FY 2016. The chart below illustrates Porter’s annual Budget and Actual NPSR. Porter has submitted budget increases for the last 4 years that average roughly 3.6% (consistent with GMCB guidelines for each of those years, inclusive of appropriate allowances and adjustments).



While Porter has repeatedly fallen short of budget in each of those years, the chart above also shows that Porter has increased its actual NPSR by an average of 4.4% per year. Porter expects that it can successfully achieve an actual growth of 3.5% vs. its forecast for FY 2016, which will be sufficient to achieve our NPSR budget request.

Actual NPSR growth is primarily based on 0% Increase in Medicaid rates, Medicare revenue as modeled consistent with our cost based settlement process, and rate negotiations with other payers

Porter’s Patient Financial Advocates have been successful in working with patients to resolve an increasing number of uninsured services via Navigator referrals, free care / sliding scale applications, and direct assistance in obtaining insurance. These efforts have resulted in an improved experience for FY 2016, which we anticipate will continue into FY 2017.

In December 2015, Porter launched its Infusion service, providing a great convenience to Addison County residents who were typically traveling an hour or more for recurring services. This expanded service is expected to provide approximately \$1M in additional net revenue, and is expected to produce a contribution after the cost of drugs and other support expenses of approximately \$300K.

Rate Request:

Porter Hospital is requesting a Price Increase of 5.3% on most services, resulting in an effective 3.7% increase to Gross Patient Service Revenue vs. Budget FY 2016. This increase should yield approximately \$1.0M of increased NPSR, thus providing 1.4% of the 3.5% increase vs. FY 2016 forecast. Services not impacted by the price increase include chargeable supplies and drugs, contract laboratory and professional physician fees. All other services are proposed to increase uniformly by 5.3%.

Operating Expenses:

Porter Medical Center, inclusive of both the hospital and the Helen Porter Nursing and Rehabilitation Center, is currently engaged in efforts to provide a more consistent operating environment for all patients, residents, employees and visitors. As part of that process, Porter has altered its management contracts in order to promote this increase in uniformity. Therefore, a significant portion of salaries expense has been transferred to the parent company (“Porter Medical Center, Inc.”, or “PMC”) and

these costs are allocated to both the hospital and the nursing home under the category of “Management Contracts”.

While Porter Hospital’s salaries expense reflects only a 1.1% increase vs. the FY 2016 budget, the combination of Management Contracts and Salaries expense reflects an increase of approximately 3%, which more fairly represents the real cost of labor to the organization.

Porter Hospital continues to apply labor benchmarking provided by Applied Management Systems, Inc. (AMS) to determine appropriate staffing levels based on volume and other pertinent statistics. Inclusive of FTEs that were transferred to PMC, Porter has reduced its total vs. the FY 2016 budget by approximately 12 FTEs. The majority of this change is due to efforts focused on gaining efficiency in Porter’s various physician practices. This includes the consolidation of the Tapestry Midwifery practice with the existing Addison Associates OB/GYN (Now known as “Porter Women’s Health”).

Effective in CY 2016, Porter moved its employee health plan to a self-insured model, and also changed its benefit structure to provide healthcare to employees who work a minimum of 30 hours per week. Porter’s budget includes an improvement in its healthcare costs of approximately \$500k vs. the budget for FY 2016, reflective of the aforementioned changes.

As previously noted, Porter Hospital now offers infusion services, which primarily accounts for the 40.6% budget to budget increase in drug supplies. This is inclusive of the high pharmaceutical costs associated with treatments for immunodeficiency’s, monoclonal antibody treatments, and biologic response modifiers.

FY 2016 Financial Performance to Date:

During our current fiscal year, Porter Hospital experienced an 18% inpatient volume and related revenue deficit to budget in the first fiscal quarter, which represents the primary cause for our overall financial underperformance. Significant volume fluctuations relative to forecast are not uncommon for small hospitals and can be driven by a variety of internal or external forces (including the proverbial “outbreak of health” that we experience from time to time). However, we in leadership at Porter Hospital must include in our explanation of this variance, in all appropriate candor, that the internal disruptions in operations and staffing during this period of time contributed significantly to this financial underperformance. As we emerge from that period with new clinical and administrative leadership and a significantly improved operating and collaborative environment, we are experiencing improved clinical and financial performance in both our inpatient and outpatient operations.

Capital:

Porter has carefully evaluated the proposed capital investments for FY 2017, which equates to a total reinvestment of \$4M. The following list highlights several of the assets that Porter plans to invest in for the forthcoming budget year:

- **Key Clinical Replacements Include:**
 - Ultrasound Units - \$350K
 - Nuclear Med Camera - \$400K

- Main Floor Defibrillators - \$110K
- Mini C Arm Unit - \$100K
- Digital X-Ray Equipment (Orthopedic Practice) - \$130K
- Neoprobe Unit - \$90K
- **Plant and Facility Infrastructure Improvements Include:**
 - Parking Lot Resurfacing - \$125K
 - Facilities Master Plan - \$50K
 - PMA Building Renovation - \$350K
 - Practice Renovation (Addison Family Medicine) - \$100K
- **IT Hardware and Software Purchases Include:**
 - Disaster Recovery Changeover & Upgrade - \$136K
 - Wireless Upgrade - \$60K

Summary:

We believe that our FY 2017 Porter Hospital budget represents a financial plan to achieve our mission, while supporting a larger, forward-looking strategic planning process by our Board of Directors, with input from our providers, employees and patients, to ensure that our organization will continue to meet these community health needs for the next generation.