NORTHEASTERN VERMONT REGIONAL HOSPITAL
FY 2018 BUDGET NARRATIVE

On June 28, 2017 the Northeastern Vermont Regional Hospital (NVRH) Board of Trustees approved the operating and capital budgets for the hospital's fiscal year 2018. The approved budgets have been submitted to the Green Mountain Care Board (GMCB) in their prescribed worksheets.

This narrative, which highlights key aspects of NVRH's fiscal 2018 budget, follows the format suggested by the GMCB in their Reporting Requirements instructions.

NOTE: Subsequent to the NVRH Board of Trustee's vote to approve the fiscal year 2018 budget, we were informed by the Department of Vermont Health Access (DVHA) that NVRH's Disproportionate Share (DSH) revenue reduction will be $667,000 rather than the budgeted reduction of $465,000. We also just recently learned the DVHA may soon propose a new Outpatient Prospective Payment System to reimburse hospitals for Medicaid outpatient services. A significant reduction in Medicaid outpatient reimbursement resulting from a new payment model, combined with the unexpected decrease in DSH revenue, may require the NVRH Board of Trustees to approve a revised fiscal 2018 budget. If a revised budget is necessary, NVRH will work with GMCB staff to modify our originally-filed budget.

EXECUTIVE SUMMARY:

The following summary highlights key elements of NVRH's FY 2018 operating and capital budgets:

- An operating margin of 1.8%
- Average rate increase of 4.25%
- Fiscal 2017 budget to fiscal 2018 budget net revenue growth of 11.3%
- Fiscal 2017 projected to fiscal 2018 budget net revenue growth of 4.4%
- Fiscal 2017 budget to fiscal 2018 budget expense growth of 11.2%
- Fiscal 2017 projected to fiscal 2018 budget expense growth of 4.6%
- New positions that continue our efforts to improve timely access to essential services
- Funding for three new health care reform related activities
- Capital budget of $6,200,600, excluding the cost of a potential certificate of need project

VALUE-BASED PAYMENT AND DELIVERY REFORM

The majority of NVRH's delivery reform efforts involve our work with the Caledonia and So. Essex Accountable Health Care Community.

The Caledonia and So. Essex Accountable Health Community (CAHC) was organized three years ago. CAHC uses the framework of the Accountable Health Community, the elements of Collective Impact, and the principles of Results Based Accountability to guide our work and working relationships with our communities.

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CAHC was founded and is led by the CEO of the Northeastern Vermont Regional Hospital (NVRH). The CAHC leadership group includes NVRH; Northern Counties Health Care (NCHC), the area's federally qualified health center and home health and hospice provider; Rural Edge, the regional low-income housing provider and developer; Northeast Kingdom Community Action (NEKCA); the Northeast Kingdom Council on Aging; Northeast Kingdom Human Services (NKHS), the regional nonprofit mental health agency; and the Vermont Foodbank. There are also strong connections with and monthly participation from the Vermont's Agency of Human Services through the Agency's regional directors, programs of the Department of Children and Families, the Vermont Department of Health, Green Mountain United Way, and many others – including school district leaders and regional planning and economic development agencies.

An aspirational model, an Accountable Health Community (AHC) is accountable for the health and well-being of the entire population in its defined geographic area and not limited to a defined group of patients. Population health outcomes are understood to be the product of multiple determinants of health, including medical care, public health, genetics, behaviors, social factors, economic circumstances and environmental factors. An AHC supports the integration of high-quality medical care, mental and behavioral health services, and social services (governmental and non-governmental) for those in need of care. It also supports community-wide prevention efforts across its defined geographic area to reduce disparities in the distribution of health and wellness.

Mission Statement

Our Accountable Health Community is committed to our shared goal to improve the health and well-being of the people in Caledonia and southern Essex Counties by integrating our efforts and services with an emphasis on reducing poverty in our region.

Priorities/Outcomes

We want our population to be

- Financially secure
- Physically healthy
- Mentally healthy
- Well-nourished
- Well-housed

Over the past year, tangible progress has been made in each of the outcome areas:

Financially Secure – We consider this our most difficult outcome to achieve, but the one that could have the greatest impact on our community. The CAHC was recently selected as one of six communities in the nation to be part of the Bridging for Health: Improving Community Health through Innovations in Financing. This initiative will allow us to engage our local financial institutions in our efforts to improve population health by aligning investments and fostering new linkages between health, public health, and other traditional and non-traditional partners.

Physically healthy – Our cumulative successes in physical health were evident when Caledonia moved up to 5th place (out of the 14 Vermont counties) for health outcomes in the national County Health Rankings. Much of this credit goes to our 6 medical homes and robust community health teams, as well as built environment efforts like the completion of the local rail trail.

Mentally healthy – The highlight of work in this area is in efforts around resilience and ACEs (adverse childhood experiences). The Resilience Collaborative is a workgroup formed under the CAHC. Currently, this group has aligned with the Promise Community program in the St. Johnsbury School to strengthen families with young children. Additionally, the hospital has partnered with the school to embed two community health workers in the school to work with school staff to address social and medical needs of children and families.

Well nourished – True community engagement and visioning occurred at our NEK Food Summit in March. This was attended by over 60 stakeholders including farmers, consumers, and economic development professionals, as well as health and human services. The Summit successfully identified an enthusiastic group of people ready to move the NEK Regional Food System Plan forward. The CAHC workgroup in this area is the most established, actively working on small-scale, place-based initiatives to improve nutrition in high risk and at risk populations.

Well housed – Our biggest success in this area was the creation of a seasonal warming shelter in St. Johnsbury for homeless people. The partners on the CAHC Leadership made this "happen" despite heavy "not-in-my-back-yard" opposition from residents and town officials. Opposition melted away when the CAHC partners were able to find a location on hospital property.

In the coming year, the CAHC will be fine tuning the governance structure for both the Leadership Team and the action focused workgroups.

NVRH will remain a member of the Community Health Accountable Care ACO (CHAC). We do not anticipate any significant value-based payment options or delivery reform projects will result from our CHAC membership.

During fiscal year 2018 NVRH will not participate in OneCare's 2018 Next Gen (Risk-Based) Program

ADDRESSING COMMUNITY HEALTH NEEDS ASSESSMENT (CHNA) GOALS

NVRH is funding a variety of community health initiatives to address our 3 identified health priorities: obesity and obesity-related chronic conditions; poverty related issues; mental health and substance abuse. These include, but are not limited to:

Poverty:

- Providing Bridges Out of Poverty training for community based agency staff
- Working with community leaders through CAHC to address poverty issues such as housing and living wage jobs

Mental health and substance abuse:

- Embedding a Community Health Worker in the St. Johnsbury School to work with their staff on preventing adverse childhood events as part of Promise Program
- Supporting training programs on mental health issues for area professionals
- Leadership and support in the Drug Abuse Resistance Team (DART) 2.0
- Providing meeting and office space for the Kingdom Recovery Center

Obesity:

- Support the Veggie Van Go Food distribution to over 200 families per month
- Expanding our No Sugar Added campaign to reduce consumption of sugary drinks to a teen audience.

Increasing safe access to opportunities for physical activity by supporting amenities on the rail trail and providing free bike helmets for children and adults.

ADDRESSING MENTAL HEALTH AND SUBSTANCE ABUSE NEEDS

NVRH is certainly not immune from effects of the mental health and substance abuse crisis in Vermont. In fact, mental health and substance abuse is one of the three priority health priorities identified in our Community Health Needs Assessment.

NVRH is unique in how mental health and substance abuse patients presenting in our emergency department are managed. Rather than long waits in the emergency department these patients are admitted to our inpatient medical/surgical where they await placement in an appropriate facility. Unfortunately, placements are not always timely. One such patient has been in our medical/surgical unit for over 3 months. Several staff members have been physically assaulted by this patient. As a result of these numerous assaults a sheriff must be present in the patient's room 24 hours a day 7 days a week. To date, NVRH has spent over $125,000 for this 1:1 sheriff coverage. This expense is in addition to the ongoing cost of 24/7 sheriff coverage in the emergency department.

In addition to the programs and services identified in the CHNA section above, our efforts to address the needs of patients with mental health and substance abuse needs include:

- Initial and ongoing de-escalation training for all emergency department staff.
- Hiring a mental health specialist to work in the emergency department to work with patients after discharge from the emergency department.
- A new mental health and substance abuse screening and referral services in the NVRH Emergency Department. . This program would be adapted from the SBIRT (screening, brief intervention, referral to treatment) program used by other ER's in Vermont and across the country.
- Ongoing efforts to recruit a psychiatrist for the community. We have just identified a part time candidate that could start as early as September 30th. This position has not been included in the budget. We will also continue efforts to recruit a full-time psychiatrist.
- Transferred $465,000 of Disproportionate Share Revenue from NVRH to the State. The majority of these funds will be used to shore up mental health services throughout Vermont.

NEW HEALTH CARE REFORM INVESTMENTS

NVRH embraces the idea that sound healthcare reform initiatives result in improved health, a better patient experience, and reduced costs to the health and human services systems of care. To that end, we have included three very specific positions to meet the goals of healthcare reform:

1. A registered nurse (RN) to join the core Community Health Team (CHT) to provide in home skilled nursing, including medication education, to people who would benefit from a nursing home visit for an ongoing chronic condition, but are not eligible (do not meet the criteria) for traditional home health nursing services. This RN would work closely with other members of the CHT who already work as a team to better coordinate care for at risk and

high risk patients. This position would be funded by NVRH and hired in partnership with Caledonia Home Health Care (CHHC), with CHHC providing supervision and scheduling and administrative services.

2. Paramedic service staff time to make home visits following discharge for an identified cohort of patients who would benefit from a home visit. A trigger list would be created to identify those patients who would benefit from this service. The goal of this initiative would be to reduce readmissions. Similar projects already implemented in other parts of the country have proved to be successful in reducing admissions and reducing unnecessary ER visits. Again, this service would be for patients not meeting criteria for traditional home health services. It would be funded by NVRH in partnership with local community EMS.

3. Mental health and substance abuse screening and referral services in the NVRH Emergency Department. This program would be adapted from the SBIRT (screening, brief intervention, referral to treatment) program used by other ER's in Vermont and across the country. There is strong research to support this type of program especially for reducing the misuse of alcohol.

REVIEW OF BUDGET TO BUDGET NET PATIENT REVENUE INCREASES

On a budget to budget basis net patient revenues will increase by 11.3% from 2017 to 2018. The following table summarizes the key factors contributing to the year to year increase.

Description	Amount	Percent
FY 2017 Approved Net Revenue	$71,339,400	
Increase Utilization/Service Intensity	4,492,200	6.2%
Medicare Reimbursement for Expense Increases	2,711,700	3.8
FY 2016 Budget to Actual Adjustment	(220,000)	(.3)
Increase Uncompensated Care	(258,800)	(.4)
Increase/(Decrease) DSH Revenue	(465,000)	(.6)
Increase/(Decrease) Medicaid OPPS	N/A	
NPR Growth from Rate Increase	1,605,700	2.3
New Health Care Reform Programs	180,000	.3
FY 2018 Budget Net Revenue	$79,385,200	11.3%

Rates charged for services will increase by an average of 4.25%. This increase will be accomplished by raising charges for hospital services by an average of 4.75% and minimally increasing rates for professional fees for services in our physician practices.

A summary of key assumptions for each of insurance category follows:

Medicare Reimbursement Assumptions

No changes to Medicare reimbursement formulas for Critical Access Hospitals are anticipated. As a Critical Access Hospital, Medicare will pay a proportionate share, roughly 34%, of budget to budget expense increases.

Medicaid Reimbursement Assumptions
The NVRH budget assumes there will be no changes to Medicaid reimbursement. However, the Department of Vermont Health Access is working on a new Outpatient Prospective Payment System model.

Commercial Insurance/Self Pay Reimbursement Assumptions
Reimbursement from commercial or private payers is budgeted based on discount rates established through contracts with these payers. No significant changes to existing negotiated contracts are anticipated.

Uncompensated Care
As a percentage of gross revenue Uncompensated Care will decline slightly.

Disproportionate Share Revenues
Our operating budget assumed Disproportionate Share (DSH) Revenue of $1,265,400, a reduction of $465,000 from the amount budgeted for fiscal year 2017. However, after the fiscal 2018 budget was finalized and approved by the NVRH Board of Trustee, we received notice from the Department of Vermont Health Access that NVRH's fiscal year 2018 will be $1,075,300, a budget to budget reduction of $655,100.

Other Operating Revenues
Other Operating Revenues total $1,550,000. A majority of other operating revenue, $1,500,000, is for the 340B Retail Pharmacy Program.

Justification for the Net Revenue Growth
In our budget submissions for both fiscal 2016 and 2017 NVRH explained in great detail how we were improving access to essential services for residents in the hospital's service area and by doing so returning significant health care dollars from NH facilities to NVRH. The more significant shifts have been for orthopedic and urology services. Net patient revenue growth will continue in fiscal 2018 as NVRH continues to improve access to essential services, as described below.

We are working with GMCB staff to determine the effect of in-migration trends, especially for orthopedic and urology services, by analyzing available VHCURES data. Unfortunately, reliable VHCURES data is only available through December, 2015.

Hiring a third orthopedic surgeon in July 2015 resulted in bringing significant orthopedic revenue back to NVRH from NH hospitals. His practice continues to grow. The addition of a Physician Assistant has improved access to orthopedic services, and increased net patient revenue. Specifically, professional fees, inpatient, operating room, diagnostic imaging, MRI, pharmacy and medical supply revenues will increase significantly due to the higher volume of orthopedic patients.

A busy urologist joined the hospital in October 2015. To improve access to urology services we have hired a part time nurse practitioner, which will improve access to urology services. Professional fees, operating room, laboratory and pharmacy revenues will increase due to the higher volume of urology patients.

As described above, operating room cases will increase due to additional volume of orthopedic and urology patients. On budget to budget basis cases are projected to increase by 7%. The vast

majority of the volume increase, 218 cases, will be either orthopedic or urology cases. The intensity of orthopedic and urologic surgeries is much higher than it is for ophthalmology (e.g. cataract) or endoscopic (e.g. colonoscopy) surgeries, which results in much higher net patient revenue per case.

The neurologists' practice continues to grow. We hired a nurse practitioner to improve access to neurology services, which has also been successful. Professional fees, MRI and pharmacy revenues will increase due to higher volume of neurology patients.

We have not experienced significant inflationary increases for drug costs. However, we have experienced an increase in higher-cost drugs, especially for urology and neurology patients. The use of higher cost drugs results in additional net patient revenue.

On a budget to budget basis volume in the emergency department will decrease slightly. However, the acuity of patients treated will increase significantly. Using Medicare Relative Value Units (RVUs) as a measurement tool the average acuity of an emergency room patient has increased from 1.71 in budget 2017 to 2.16 in budget 2018, a 26% increase. This increase is due in part to increased scope of services provided in the ED by board certified / board eligible physicians and in part due to improved documentation, and therefore improved coding and billing, for level of services provided. The combination of these factors has resulted in significant net patient revenue growth for the emergency department.

REVIEW OF BUDGET TO BUDGET OPERATING EXPENSES:

Total operating expenses are budgeted to increase by $2,813,100 or 11.3%. The factors contributing to this increase are summarized in the table below.

Description	Amount	% Change
FY 2017 Approved Expenses	$71,509,500	
Inflation/Cost of Living Increases/Other	2,167,100	3.0%
New positions	2,233,700	3.1
New Health Care Reform Investments	180,000	.3
Fringe Benefits	1,000,000	1.4
Provider Tax Increase	482,000	.7
Volume/Intensity Increase	1,540,200	1.8
Depreciation Increase	613,200	.9
Savings from Operational Efficiency Gains	(254,400)	
FY 2018 Budgeted Expenses	$79,485,200	11.2%

Inflationary and cost of living increases will average 3%. Through our membership in the New England Alliance for Health, NVRH is able to minimize inflation-related cost increases.

On a budget to budget basis a total of nineteen (19) new positions will be added. Following is a summary of and justification for the majority of these positions.

- Medical/Surgical Inpatient – 4.0 FTEs. Primarily an increase patient observers who are used to monitor patients at high-risk of falling. Patient observers are also used occasionally for mental health patients admitted from the emergency department. A portion of the 4.0 additional FTEs are required for the increase in inpatient admissions/observation patients.

- Emergency Department – 2.0 FTEs. These are new physicians. The department is fully staffed with board certified/board eligible physicians. Locum tenens physicians had been used extensively in the past. Therefore, there is a corresponding decrease in non-salary expenses as locums are no longer used.

- Perioperative Services/Anesthesia – 5.4 FTEs. To meet the increasing volume and intensity of operating room cases available OR time will be extended three days per week. A total of 5.4 full time equivalent day surgery, operating room, recovery room staff, including two (2) certified registered nurses will be added to staff the additional OR time slots.

  In July, 2015 NVRH added a third orthopedic surgeon and increased urologist services from part time to full time. As a result of these new surgeons, operating room cases have increased by almost 21%. Moreover, the intensity of orthopedic and urologic surgeries is much higher than ophthalmology (e.g. cataract) or endoscopic (e.g. colonoscopy) surgeries, thus requiring significantly more resources.

- Pain Management and Palliative Care – 3.4 FTEs. Volume in these two services continues to grow. Increasing access to these services to meet the increasing demand requires additional physician and nurse practitioner resources.

- Information Services – 3.0 FTEs. These additional resources are required to a) meet the hospital's need for clinical informatics and b) preparation for and implementation of and ongoing support required by the new Meditech 6.1 platform.

We project a significant increase in fringe benefit costs. This increase is driven by the increased number of employees, benefit enhancements made to recruit new providers and anticipated increase in health care costs for our employees.

The Provider Tax increase is based on the most recent DVHA estimate.

Using a "Lean" type approach to review current processes throughout the hospital, NVRH will reduce operating expenses by $254,400 during fiscal 2018.

The Capital Budget section of this narrative describes the more significant investments in equipment and building renovations included in the fiscal 2018 budget. The increase in depreciation expense is a result of the $6.2 million investment in new capital projects.

RATE INCREASE REQUEST

NVRH is requesting a rate increase of 4.25%. This increase will be accomplished by raising charges for hospital services by an average of 4.75% and minimally increasing rates for provider professional fees in our owned practices.

ADDRESS REQUIREMENTS OF FY 2016 BUDGET TO ACTUAL

During fiscal year 2016 NVRH exceeded our net patient revenue target and achieved a higher-than-budgeted surplus. In their April 28th letter the GMCB provided the following instructions to NVRH for our fiscal year 2018 budget:

"We expect the rate for FY 2018 to be no more than 3.2% (0.6% lower than the FY 2017 rate of 3.8%".

NVRH's requested rate increase includes the 3.2% limit requested by the GMCB. However, an additional 1.05% increase, which will generate $375,000 of net patient revenue, is requested to partially offset the $465,000 Disproportionate Share Revenue reduction from fiscal 2017 to fiscal 2018.

A REVIEW OF CAPITAL BUDGET INVESTMENTS:

FY 2018 Capital Budget

The fiscal 2018 capital budget totals $6,200,600, excluding CON projects. NVRH has a pending certificate of need application to replace our fixed-trailer MRI machine, with a new in-house machine. The cost of the MRI project, including equipment and construction costs, is $3,100,000. If approved, the CON project will not affect net patient revenues during fiscal 2018.

The fiscal 2018 capital budget includes:

- $1,800,000 to complete the Meditech information system upgrade and technologic upgrades. This upgrade will improve the integration of the hospital and physician practices' electronic health record. Work on the upgrade began in June 2017 and will be completed on May 1, 2018.
- $2,400,000 to completely renovate the Birth Center. The Birth Center has not been upgraded since the hospital was built in 1972. A significant improvement will be to renovate existing separate rooms for used for labor/delivery and then post-partum stay to rooms used for labor, delivery, recovery and post-partum stay.
- $300,000 to replace orthopedic clinic diagnostic imaging equipment. The existing equipment in this very busy orthopedic clinic is nine years old.

FY 2019 – FY 2021 Capital Budget

The FY 2019 to FY 2021 capital budget includes $4,000,000 to renovate and expand the emergency department in 2020. We anticipate filing a certificate of need application during fiscal 2019 for that project. No other projects requiring a certificate of need are anticipated.

TECHNICAL CONCERNS:

At this time, NVRH does not have any technical concerns with the Green Mountain Care Board's processes for the fiscal year 2018 budget submission.

Robert Hersey
Chief Financial Officer

CC: Paul Bengtson, CEO