Andrew A. Pallito, Director of Health System Finances
Green Mountain Care Board
89 Main Street
Montpelier, VT 05620-3101

July 3, 2017

Dear Andrew:

The following narrative outlines the 2018 Operating and Capital budgets for Rutland Regional Medical Center (RRMC). It describes significant changes in operations and explains deviations from the guidelines set forth by the Division of Health Care Administration.

1. EXECUTIVE SUMMARY

RRMC's 2018 budget includes an overall rate increase of 4.94%. The net patient revenue increase from budget to budget is 3.34%, which is within the state allowed increase, including .4% for Healthcare Reform.

Expenses are up by a total of 3.7%. The increase in expenses supports an additional 17.2 FTEs and a 3% salary increase. RRMC's margin is 2.5% consistent with Budget 2017. This operating margin is required to fund capital, our pension plan and repay debt service payments.

RRMC is now including midlevel FTEs with Other FTEs rather than Physician FTEs in Projection 2017 and Budget 2018.

2. VALUE-BASED PAYMENT AND DELIVERY REFORM AND IMPLEMENTATION OF THE ALL-PAYER MODEL

Describe how your hospital is preparing for and investing in value-based payment and delivery reform and implementation of the All-Payer Model. Include information about contract status, data analysis and transition exercises.

Rutland Regional Medical Center is a strong supporter of the All Payer Model and delivery reform. We have worked for the last two and a half years to help define the All Payer Structure and to define a workable governance model. Given the events in recent months, RRMC will not be able to participate as a risk model organization in 2018. We continue to prepare to go into risk presumably in 2019. In order to become a risk based organization, not only must the hospital be willing, but at least 50% of the primary care providers in our service area must also be willing to participate. With the Vermont Care Organization no longer pursuing its goal of being a unified ACO, the federally qualified health center in

our area, CHCRR, has decided it will not participate with OneCare at this juncture. They provide 75% of primary care in our area. The payment model for primary care is not as clear as they would desire. In addition, the payment targets and projections for the region need to be known in greater detail. We would also like to further test the ACO infrastructure to ensure it supports this important initiative. Having said this, we are hopeful that by working with the various organizations (CHCRR, OneCare and others) through the rest of 2017 and 2018 there will be enough clarity that we can become risk partners in 2019. There are two key pieces of work that RRMC is doing to prepare for this. First, we are working to improve our data and analytic systems in our own organization to be ready to manage in the All Payer world. This includes investments in our data warehouse and report writing capabilities. We certainly would not seek to replicate the work of the ACO, but need to be prepared to work in conjunction with them. Second, we are working to create a community-wide care management system. The federally qualified health center (CHCRR) and RRMC have agreed to merge their case management functions under a single leadership structure to ensure the most seamless case management possible for our community. In addition, there are a variety of ways of investments we are making to support these structures. As noted in our budget, we are investing in social workers in chronic disease clinics, social workers and case managers in the emergency department, SBIRT counselors in the ED, medication reconciliation counselors, behavioral health peer specialists and many other efforts intended to drive unnecessary care out of the system.

Again, we strongly support the need to have payment reform to drive changes in the delivery system. We have worked tirelessly on it to date and hope to see come to complete fruition.

3. COMMUNITY HEALTH NEEDS ASSESSMENT

Describe your hospital's initiatives addressing your population health goals as identified in the Community Health Needs Assessment.

RRMC's CHNA process includes an analysis of a wide variety of data sources, including direct input from stakeholders through surveys and focus groups. Prioritization of needs within the community was accomplished through a meeting of community stakeholders from diverse backgrounds to review the data, trends, and system gaps. This group narrowed our focus for the 2015-2017 CHNA Cycle to include the priorities and goals below.

Priority: **Promote a Healthy Culture by positively influencing Healthy Behaviors, Social and Economic Determinants, and Physical Environment**

Goals:
Increase number of people eating recommended fruits and vegetables;
Increase percent of Rutland residents that are physically active;
Reduce Rutland County residents reporting poor mental health days;
Improve educational attainment;
Reduce percent of Rutland County residents using tobacco;
Increase rate of exclusive breastfeeding.

Priority: **Mental health and substance abuse services for adults and youth**

Goals:
Increase number of people receiving treatment
Reduce waitlist for treatment
Reduce high school senior binge drinking and misuse of prescription drugs

In order to meet these goals, RRMC actively participates in many community-wide efforts including leadership of the Project VISION Health Committee, the Community Collaborative, and the Accountable Community Health Committee. Through our Community health team, RRMC also works with community partners to establish detailed work plans and monitor progress toward each established goal.

Our full June, 2017 CHNA Progress Report can be access on our website at:
http://www.rrmc.org/app/files/public/2131/Implementation-Strategy-2015-2017_UPDATE.pdf

4. MENTAL HEALTH AND SUBSTANCE ABUSE

Describe how your hospital is addressing the statewide mental health and substance abuse needs and care shortages.

RRMC serves many vital roles in the local substance abuse treatment system of care providing: emergency services and routine screening through our emergency department; medically supervised detoxification and treatment on our medical and psychiatric units; and medication assisted treatment (Methadone, Buprenorphine, and Vivitrol) through our West Ridge Center. All patients accessing services through our emergency Department are screened for substance use disorders by our SBIRT clinicians, who also provide the necessary support and linkages to connect patients with the correct level of care. Our inpatient teams provide medically supervised detox services and work closely with outpatient providers, residential care centers, and community based services to link patients with care. The West Ridge Center provides comprehensive treatment services for more than 400 patients with opiate addiction. They partner closely with law enforcement, corrections, family services, primary care spoke providers and others to ensure that all patients can access treatment as quickly as possible. Patients currently remain on the West Ridge Center "waiting list" for only as long as it takes us to reach them by telephone to coordinate an intake.

Over the past three years, we have witnessed many improvements in access to substance abuse treatment within Rutland County. The West Ridge Center provides the important "safety net" support that has allowed an increasing number of primary care providers to enter practice as a buprenorphine (spoke) provider. If a patient is not successful at the spoke level, Primary Care providers have the ability to refer a patient to the West Ridge Center for immediate entry (or re-entry) into services at the hub level of care. RRMC has also provided grant funds for a partnering organization to start up an additional spoke practice. Lastly, RRMC leads monthly substance abuse treatment neighborhood meetings which bring providers together to improve coordination of care within the provider community. Due to these efforts, and community-wide engagement in addressing the substance abuse issues in Rutland, we do not currently have a significant shortage of traditional substance abuse services in Rutland County. The community is now targeting specific treatment outreach toward sub-populations who are traditionally less likely to seek treatment on their own, such as the elderly and women with small children.

5. HEALTH REFORM INVESTMENTS

RRMC is seeking an allowance of .4% to the 3% maximum net revenue increase for Health Reform Investments. RRMCs total annual cost of Healthcare Reform is $974,000 and includes the following:

- Expanding Clinical Social Workers - $82,800
  - Emergency Room
- Community Care Management - $80,300
  - Care Collaborative team between CHCRR and RRMC
- Community Investment & Population Health Funding - $520,000
  - Medication REACH (Reconciliation, Education, Access, Counseling, Healthy Patient)
  - Peer Specialists – Psychiatric and Substance Abuse Disorders (Patient Compliance and Transitions of Care)
  - Come Alive Outside
- Blue Print – Medical Homes - $151,300
  - Costs over State and Payer funding
- Screening, Brief Intervention, Referral to Treatment (SBIRT) - $47,300
  - Costs over Federal grant funding
  - Emergency department patient screening by trained clinicians
  - Identify patients who are at risk for development of substance use disorders
- Community Support - $92,300 grant funding
  - Continued funding to Community Grant Programs provided through the Bowse Health Trust
  - Expense growth from prior years

6. OVERALL NET PATIENT REVENUE BUDGET TO BUDGET INCREASE

Our 2018 net patient service revenue budget increases by 3.34% when compared to the 2017 Budget.

Utilization

Patient days (including Nursery) increase by 1,531 or 4.9% budget to budget. Discharges decrease by 63 or .9% budget to budget. FY 2018 overall length of stay increases budget to budget with an ALOS of 4.95.

Reimbursement

The overall net collection rate in Budget 2018 is 47.38%. The total contractual allowance related to Medicare Services is approximately $185.4 million. The Medicare net collection rate is budgeted at 33.2% in 2018 and 34.3% in 2017. The total contractual allowance related to Medicaid services is approximately $63.8 million. The Medicaid net collection rate is budgeted at 27.9% in 2018 and 29.2% in 2017.

Reimbursement Assumptions

- Medicare

  Inpatient: Overall Reimbursement increase of 1.6%
  Outpatient: Overall Reimbursement increase of 1%

- Medicaid

  Inpatient: No change
  Outpatient: No change
  Physician: No Change

  Medicaid Disproportionate Share Receipts are anticipated to be lower in 2018 by $1.1M.

- Commercial Payers

  All current commercial contracts will remain unchanged and in place.

- Uninsured

  Free Care budgeted at 1.15% of gross revenue
  Bad Debt budgeted at 1.0% of gross revenue

Cost Shift

In total, the governmental and charity care cost shift to commercial payers is projected to be $62.5 million in FY 2018. The Medicaid Cost Shift including Disproportionate Share is estimated at $27.7 million. The Medicare Cost Shift is estimated at $34.8 million in FY 2018. The Free Care and Bad Debt Cost shift is $5.2 million. Medicare and Medicaid cover 63.0% of the cost of services

7. OVERALL EXPENDITURE BUDGET-TO-BUDGET INCREASE

Salaries and FTEs

There are 17.2 additional non-physician (excluding physicians and midlevels) FTEs in the FY 2018 budget when compared to the prior year budget. This is a 1.4% increase in FTEs budget to budget. A summary of the changes in FTEs are as follows:

New Positions	33.2
Reductions	(16.0)

The areas with the largest changes in FTEs are as follows:

- ***FTE Additions – 33.2 FTEs***

  FTEs were added to the following areas:

Inpatient Nursing	9.5
Ancillary Services	13.9
Other Clinical	4.6
Support	5.2

- ***FTE Reductions – (16.0) FTEs***

  FTEs were reduced in the following areas:

Inpatient Nursing	9.5
Ancillary Services	13.9
Other Clinical	4.6
Support	5.2

Productivity –
With the proposed 2018 budgeted FTEs, productivity decreased for one measure and was consistent budget to budget for the other. The day based measure, FTEs per adjusted occupied bed basis was consistent budget to budget while the FTEs per 100 adjusted discharge basis increased by 4% budget to budget. Total FTEs per adjusted occupied bed for FY 2018 is 5.6 (FY 2017 was 5.6) and FTEs per 100 Adjusted Discharges for FY 2018 is 7.7 (FY 2017 was 7.4).

The salary budget reflects 3% wage increase for all employees effective 12/1/17.

Direct Service Nurses
Direct Service Nurses reported on Schedule 16A includes RNs and LPNs. Management, supervisory RNs, and clerical nursing were excluded from the FTEs reported in Schedule 16A.

Supply and Non-Salary Expenses

Supply and non-salary expense is proposed to have a net increase of $4.9 million from budget to budget. The following is an overview of some of the more significant budget to budget increases/decreases in expenses:

Contract Staffing	$ 1,753,800
Pharmaceuticals	$ 1,158,500
Retail Pharmacy	$ 1,009,500
Operating Room	$ 496,500
Pharmacy 340b Program	$ 419,600

Inflation – RRMC has not included any inflation in the 2018 budget

Contract Staffing – This increase is due to a Budget Correction – we ran a variance in FY 2017

Pharmaceuticals – Cost to Charge increase

Retail Pharmacy – Full year expense in Budget 2018

Operating Room– Cost to Charge Increase

Pharmacy 340b Program – Increase in volume

Provider Subsidies

The RRMC budget includes subsidy expense related to Community Health Centers of the Rutland Region (CHCRR). CHCRR is an independent 501(3) corporation established to comply with Federal regulations governing a Federally Qualified Health Center (FQHC). CHCRR received full federally qualified health center status 5/1/06. This expense is reported under the "Administration – Non-Salary Expense" line on the "EXP" tab of the state file. The subsidy expense was $227,000 for the 2017 budget and $233,000 for the 2018 budget.

8. RATE REQUEST

The fiscal year 2018 proposed budget includes a 4.94% overall rate increase. This will increase gross revenue by $25 million and net revenue by approximately $6.5 million. Budget 2018 also includes a rate decrease effective on May 1, 2017. The gross revenue related to this rate decrease for FY 2018 Budget was $4.5 million. Net revenue related to this rate decrease for FY 2018 Budget was $2.4 million.

RRMC's 2018 Budget requires a rate increase due to a $1.1 million decline in DPS, a $1.2 million increase in reserve for uninsured, and reimbursement updates for Medicare that is significantly below medical inflation, and no inflationary increase for Medicaid.

RRMC does not anticipate applying these rate increases evenly across all cost centers in FY 2018. RRMC will achieve a rate increase that in part allows patient charges to be set based on costs, market competitive factors, utilization, and reimbursement.

9. FY 2016 BUDGET TO ACTUAL OVERAGES RESULT

- Rate reduction was effective on May, 2017

- Annual Impact
  - Gross Revenue: $4,533,600
  - Net Revenue: $2,423,998

- Impact on 2017 – 5 months
  - Gross Revenue: $3,060,000
  - Net Revenue: $1,522,076

10. CAPITAL BUDGET INVESTMENTS

The routine capital budget for FY 2018 is $15,191,000, which includes the following:

1)	Items under $500,000	$ 4,916,000
2)	WACU Patient Room Redisign/Refurbishment	$ 2,230,000
3)	Window Replacement	$ 1,518,000
4)	Mammography Units X 2	$ 1,110,000
5)	IT Roadmap	$ 1,000,000
6)	Hospira Infusion Pump	$ 898,000
7)	PC Refresh	$ 850,000
8)	Chemistry Analyzers to replace VISTA	$ 751,000
9)	South Watershed Stormwater Upgrade	$ 710,000
10)	USP800 Replacement for Haz Material HVAC	$ 620,000
11)	Birthing Center Renovations	$ 588,000

Anticipated capital budgets, excluding unapproved CoNs, for FY 2019, 2020, and 2021 are $12.9 million, $11.2 million and $2.8 million, respectively. Some of the larger projects for FY 2019 include the PSIU Renovations $2.6 million, Laboratory Automation $1.5 million, and Foley Cancer Center Waiting Room Expansion $2.1 million. FY 2020 Pharmacy Replacement Omnicells $1.4 million, Outpatient Rehab Space & 3rd Floor Space $2.5 million, and Window Replacement $1.0 million. FY 2021 includes $900,000 for a Chiller Update and $850,000 for the PC Refresh

Anticipated Certificate of Need – Years 2018 and 2020

FY 2018 – Nuclear Medicine Equipment & Renovations and Medical Office Building/Loading Dock

FY 2020 – CT HD Console Upgrade (MBIR)

11. TECHNICAL CONCERNS

RRMC does not have any technical or reporting concerns at this time.

Asset Transfers

Based on actuarial assumptions and our goal to increase the funded status of our Defined Benefit Pension Plan we will contribute a total of $2.0 million to our defined benefit plan in both fiscal year 2017 and 2018.

RRMC's Defined Benefit Plan has been frozen since 2006. In part, as a result of the requirement to implement the new mortality tables, our plan is now under funded by $26.7 million. The impact on days of cash if we fully fund the plan is 43 days.

Free Care

It is the policy of Rutland Regional to follow federal poverty household guidelines in making reasonable efforts to determine eligibility for patient financial assistance before pursuing collection actions.

Eligibility is provided to the following patients where the following applies:

- You must be uninsured, underinsured, ineligible for any government healthcare insurance programs, or under financial hardship.
- The services provided to you must be medically necessary.
- All insurances to include workers compensation and auto insurances must have been billed and benefits paid to Rutland Regional Medical Center, as well as, all insurance guidelines/plan provisions must have been followed such as obtaining a preauthorization.
- Proof of household income and family size is required along with a completed application. Your eligibility must meet the financial assistance criteria based on household income and asset calculations as compared to the Federal Poverty Level (FPL).
- A 100% discount is provided to patients whose family income is below 300% of the FPL.
- Catastrophic assistance is applicable when expenses exceed 20% of the household income.

The income guidelines will be reviewed on an annual basis based on the changes in the Federal Poverty Guidelines.

This policy and the Financial Assistance Policy (FAP) set forth herein constitute the official financial assistance policy within the meaning of section 501(r) of the Internal Revenue Code for RRMC as approved by RRMC's System Finance Committee and Board of Directors.

No FAP eligible individual will be charged more for emergency or other medically necessary care than the amounts generally billed.

Community Projects/Subsidies

RRMC does not have any planned community expenditures as directed by the Board for FY 2018, except as noted above under the "Provider Subsidies" section.

Net Revenue

RRMC's net patient revenue grows by 3.34% in Budget 2018 and is within regulated guidelines.

Operating Margin

RRMC's operating margin is budgeted at 2.5% of net patient revenue, or $6.3 million for fiscal year 2018. This operating margin is necessary in order to continue to invest in necessary capital, fund our pension plan, and repay debt service payments.

Summary

We believe that RRMC's proposed FY 2018 budget is a sound, responsible plan to attain our goals of locally controlled high quality care at a reasonable cost.

We would be happy to answer any questions you may have concerning the information in this letter.

Very truly yours,

Judy K. Fox
Treasurer, CFO
Attachments
cc: Thomas Huebner