



Rutland Regional Medical Center

An Affiliate of Rutland Regional Health Services

160 Allen Street
Rutland, VT 05701

802.775.7111

Michael Davis, Director
Green Mountain Care Board
89 Main Street
Montpelier, VT 05620-3101

July 1, 2016

Dear Mike:

The following narrative outlines the 2017 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.

A. EXECUTIVE SUMMARY

RRMC's 2017 budget includes an overall rate decrease of 5.1%. The net patient revenue increase from budget to budget is 4.3%, which is more than the state allowed increase. RRMC has included .4% for Healthcare Reform. RRMC has also included two exceptions to the 3% state allowed increase related to physician transfers. Dr. Henley (Orthopedic Clinic and OR) and Rutland Regional Neurology (transfer of Dr. Brittain and addition of Dr. Sweet). RRMC is also requesting an exception for increased market share. (See detail in Overall Net Patient Revenue Budget to Budget Increase section).

Expenses are up by a total of 4.6%. The increase in expenses supports the additional 63.2 FTEs, a 3% salary increase, the new programs and inflation where appropriate. RRMC's margin is 2.5% consistent with Budget 2016. 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 2016 and Budget 2017.

B. HEALTH REFORM INVESTMENTS

RRMC is seeking an allowance of .4% to the 3% maximum net revenue increase for Health Reform Investments. RRMC's total annual cost of Healthcare Reform is \$950,000 and includes the following:

- Case Management in the Emergency Room
- Case Management for Transfers of Care from inpatient care to home
- Blue Print and Patient Navigators

- Medication Management
- Clinical Social Workers in Specialty Offices
- Member of ACO (Assessment fee)

C. OVERALL NET PATIENT REVENUE BUDGET TO BUDGET INCREASE

Our 2017 net patient service revenue budget increases by 4.3% when compared to the 2016 Budget. In accordance with the State regulated 3% growth limitation this represents an increase of \$2,237,000 more than the limit would support. We have verified that this growth is related to shifts in market share and will request that our 2016 Budget be rebased to account for these changes. We can document that patients are seeking services at RRMC that in the past were provided by healthcare facilities in other communities or markets or by private physicians within our own community. The services that are driving the market share increases relate to orthopedics and neurology.

Orthopedic Services – Our orthopedic service line is growing as a result of drawing patients from service areas in locations outside of our Rutland market area. We are experiencing growth in major joint (hips and knees) as well as foot and ankle services. In part this is driven by the addition of a new orthopedic surgeon who formerly practiced outside of the RRMC market area. In other instances this is driven by patient choice and an increase in patients who are electing to have their orthopedic care performed in Rutland. We estimate that the orthopedic market share growth will impact fiscal year 2016 by as much as \$3.9 million net revenue.

Neurology – In November of 2015 we acquired an existing physician practice that was formerly located in Rutland. This practice has 2 physicians who have joined the specialty network of physicians organized under the ownership of RRMC. The addition of this practice impacted RRMC in two ways. The first is the addition of revenue by way of clinic visits and procedures, which is estimated to add \$364,000 of net patient revenue to RRMC. The second impact is that we are now able to treat patients who present with neurologic issues in our emergency room within our own facility. We have significantly reduced the number of patient transfers to tertiary facilities for patients who suffer strokes. Our ability to retain these patients in our own facility increases our net patient revenue by as much as \$330,000. Although, neither of the neurologic impacts are new revenue to the State of Vermont, they are a new revenue source for RRMC.

We will provide detail documentation that supports this market share and work with the State to develop and understand the process that should be in place to support market share adjustment requests.

RRMC also continues to provide a subsidy to Community Health Centers of the Rutland Region (CHCRR). Please refer to the Provider Subsidies section of the narrative for additional information.

Utilization

Patient days (including Nursery) increase by 2,166 or 7.6% budget to budget. Discharges increase by 682 or 11.5% budget to budget. FY 2017 overall length of stay decreases budget to budget with an ALOS of 4.67.

Our inpatient volume for FY 2017 is down from FY 2016 projection, as we believe that a portion of FY 2016 volume is random variation.

Reimbursement

The total Contractual allowance related to Medicare Services is approximately \$160 million; the allowance is down by 6.87% for \$11.7 million. The total contractual allowance related to Medicaid services is approximately \$62.6 million; the allowance is up by 3.56% for \$2.6 million.

Reimbursement Assumptions

- Medicare
 - Inpatient: Overall Reimbursement increase of .7%
 - Outpatient: .5% increase in rates and 10% decrease in Lab Fee Schedule
 - Physician Fee Schedule: increase of .5%
 - Sequestration: 2% reduction continues from 2014 for All Medicare reimbursement

- Medicaid
 - Inpatient: No change
 - Outpatient and Physician: Anticipated reduction in reimbursement due to the elimination of provider based billing reimbursement – estimated at \$1.5M net reduction

 - DSH Receipts are anticipated to increase \$1.5M from FY 2017

- Commercial Payors
 - All current commercial contracts will remain in place
 - Blue Cross 42.6% discount for RRMC employer group claims

- Uninsured
 - Free Care budgeted at .71% of gross revenue
 - Bad Debt budgeted at 1.32% of gross revenue

Meaningful Use

RRMC's 2017 budget includes \$415,000 of Meaningful Use funds.

Cost Shift

In total, the governmental and charity care cost shift to commercial payers is projected to be \$62.2M in FY 17. The Medicaid Cost Shift including Disproportionate Share is estimated at \$27.4M. The Medicare Cost Shift is estimated at \$30M in FY 2017. The Free Care and Bad Debt Cost shift is \$4.7M Medicare and Medicaid cover 64.1% of the cost of services.

Salaries and FTEs

There are 63.2 additional non-physician (excluding physicians and midlevels) FTEs in the FY 2017 budget when compared to the prior year budget. This is a 5.3% increase in FTEs budget to budget. A summary of the changes in FTEs are as follows:

New Positions	38.3
Elimination of Lag Time	11.0
Unbudgeted in 2016 (Professional Study/Clinical Admin)	5.2
Increase in New RN Grad Orientation	3.5
Advanced Practice Providers Transfer	2.0
All Other	3.2

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

- ***FTE Additions – 38.3 FTEs***

FTEs were added to the following areas:

Inpatient Nursing	4.2
Ancillary Services	18.5
Other Clinical	8.5
Support	7.1

- Elimination of Lag Time – We have eliminated lag time in the IP Nursing Units as well as in the Clinics
- Increase in coverage for unbudgeted professional study, clinical administrative days
- Increase in our New RN Grad Orientation Program

Productivity –

With the proposed 2017 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 increased by 2.4% while the FTEs per 100 adjusted discharge basis remained the same budget to budget. Total

FTEs per adjusted occupied bed for FY 2017 is 5.6 (FY 2016 was 5.5) and FTEs per 100 Adjusted Discharges for FY 2017 is 7.4 (FY 2016 was 7.4).

The salary budget reflects 3% wage increase for all employees effective 12/1/16.

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 \$1.7 million from budget to budget. The following is an overview of some of the more significant budget to budget increases/decreases in expenses:

Health Insurance (net of contributions)	\$ 1,385,000
Information Systems (Including IT Works)	\$ 281,700
New Programs	\$ 198,700
Echocardiology	\$ 180,100
Maintenance of Plant	(\$ 400,000)

Inflation – RRMC has not included any inflation in the 2017 budget

Health Insurance (net of contributions) – This increase is due to an 8% trend factor for all claims outside of Rutland, as well as an increase in specialty drug costs.

Information Systems (Including IT Works) – This is due to the addition of new functionality.

New Programs– See Overall Net Patient Revenue Budget to Budget Increase section above

Echocardiology– This decrease is due to a decrease in service contracts

Maintenance of Plant – Decrease related to transition to Natural Gas

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 \$700,000 for the 2016 budget and \$227,000 for the 2017 budget.

D. RATE REQUEST

The fiscal year 2017 proposed budget includes a 5.1% overall rate decrease. This will decrease gross revenue by \$26.2 million and net revenue by approximately \$7.2 million. Of the \$26.2 million, \$19.6 million is a direct result of the FY 2016 rate decrease that went into effect on April 8, 2016. The additional \$6.6 million decrease will become effective on October 1, 2016.

RRMC does not anticipate applying these rate decreases evenly across all cost centers in FY 2017. RRMC will achieve a rate decrease that in part allows patient charges to be set based on costs, market competitive factors, utilization, and reimbursement.

E. FY 2015 BUDGET TO ACTUAL OVERAGES RESULT

- Rate reduction was effective on April 8, 2016
- Annual Impact
 - Gross Revenue: \$19,655,136
 - Net Revenue: \$5,317,266
- Impact on 2016 – 5 months
 - Gross Revenue: \$8,190,000
 - Net Revenue: \$2,215,000

F. CAPITAL BUDGET INVESTMENTS

The routine capital budget for FY 2017 is \$9,854,000, which includes the following:

1)	Facility/Facility Contingency	\$ 1,417,000
2)	Clinical/Clinical Contingency	\$ 1,417,000
3)	IT/IT Contingency	\$ 1,418,000
4)	PC Refresh	\$ 884,000
5)	Endo Replacement of outdated scopes	\$ 800,000
6)	DI MPI Room	\$ 650,000
7)	Mammography (2 units)	\$ 650,000
8)	TV System Upgrade	\$ 600,000
9)	Behavioral Health EMR Module (IP&OP)	\$ 518,000
10)	Window Replacement	\$ 500,000
11)	OR Braintab Navigation ENT & Orho	\$ 500,000
12)	Chemistry Analyzers to replace VISTA	\$ 500,000

Anticipated capital budgets, excluding unapproved CoNs, for FY 2018, 2019, and 2020 are \$6.8 million, \$4.6 million and \$4.1 million, respectively. Some of the larger projects for FY 2018 include the Power Chart Oncology and Foley Cancer Center Additional Square Footage \$950,000 and \$800,000

respectively. FY 2019 includes Linen Redesign \$1.5 million. FY 2020 includes \$1.2 million for the PC Refresh as well as \$750,000 for Operating Room Power.

Anticipated Certificate of Need – Years 2017, 2019 and 2020

FY 2017 – Nuclear Medicine Discovery, Medical Office Building, and Loading Dock Renovations

FY 2019 – Operating Room /Surgical Service Renovations

FY 2020 – Psychiatric Unit Renovations

G. 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 2016 and 2017.

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 \$21.5 million. There have been significant increases in fees charged by the Pension Benefit Guarantee Corp (PBGC), such that we are currently considering a lump sum deposit into our plan from operating cash. The impact on days of cash if we fully fund the plan is 36 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 2017, except as noted above under the "Provider Subsidies" section.

Net Revenue

RRMC's net patient revenue increase is 4.6% from budget 2016 to budget 2017. RRMC has exceptions to the net revenue increase limit (see Overall Budget Net Patient Budget to Budget Increase section) and with those exceptions RRMC's net patient revenue increase will decrease to 3%.

Operating Margin

RRMC's operating margin is budgeted at 2.5% of net patient revenue, or \$6.1 million for fiscal year 2017. 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 2017 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,



Edward Ogorzalek

Treasurer, CFO

Attachments

cc: Thomas Huebner