FY2020 GMCB Financial Narrative

Rutland Regional Medical Center

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Narrative Instructions

The budget narrative, a key component of the budget submission, provides the hospitals an opportunity to explain any changes in their budgets and highlight areas of interest for the GMCB. We ask hospitals **to answer each question succinctly, and to strictly follow the format below** by responding in sequence to each of the listed sections.

1. *Executive Summary.* Summarize the changes in the hospital budget submission. Include any information the GMCB should know about programmatic, staffing, and operational changes.

   Rutland Regional Medical Center's (RRMC) 2020 Budget has been filed meeting the 3.5% net patient service (NPSR) growth requirement set forth by the GMCB. Our utilization has been projected to be consistent with 2019 volume projection. In addition, we are requesting an average commercial rate increase of 2.65%. This rate increase will not be allocated evenly over all services, rather will be subject to strategic rate setting methodologies. Our 2020 budget reflects our participation in the OneCare Medicaid risk program and UVMMC's self-insured risk and includes approximately 8,700 covered lives. Our State and Federal reimbursement is in line with proposed regulations while our free care and bad debt are consistent with 2019 reserve requirements.

   Our cost structure has increased budget to budget by 4.2%, while only 2.2% from projection to budget. Included in our cost structure are supply and staffing reductions that equate to $4.0 million, or approximately 1.5%. We continue to be challenged with retention and recruitment and expect to continue to face challenges in staffing levels with our registered nurses. In support of these challenges we have included 25 traveler FTEs in our budget. And, to remain competitive and mitigate challenges that we are currently facing with retention and recruitment, we are including a 3% cost of living increase for non-unionized staff. Compensation for physicians and unionized (RN) staff are consistent with obligations set forth in contracts. In addition to staffing challenges, we are also facing inflationary pressures, primarily with pharmaceuticals. Pharmaceutical inflation is estimated at 6%.

   Overall, we have been able to manage staffing productivity and expense per adjusted discharge consistently over the past three years. Both measures reflect our focus on cost reductions and efficiency planning.

2. *Payment and Delivery Reform.* Describe how the hospital is preparing for and investing in value-based payment and delivery reform and implementation of the All-Payer Model for FY 2019 and over the next five years. Include answers to the following questions:

RRMC is developing data structures and reporting capabilities to transition from fee-for-service methodologies to risk-based models. Improvements in data reporting include data provided by OneCare and expanded care management programs. In addition RRMC and Community Health Centers of Rutland Region (CHCRR) have formed a number of active committees that serve to support integrated care management through data analytics and shared clinical decision making. Together RRMC and CHCRR have partnered to fund a Director of Care Management who reports to both organizations.

A. Has the hospital signed a contract with OneCare Vermont? If yes, use the table in Appendix V to indicate which payer programs the hospital is participating in during 2020, the budgeted monthly average number of lives to be attributed to the hospital for each program, and the budgeted monthly average amount of FPP. If no, explain (and skip B. and C., below).

   RRMC joined OneCare's Medicaid and UVMMC's Self-Insured risk programs as of January 1, 2019 and will continue with these programs in 2020. We have agreed to consider a risk program for our own employees should OneCare develop a model beyond that offered to UVMMC.

B. What is the maximum upside and downside risk the hospital has assumed?

   We do not yet have updated attribution and total cost numbers for the 2020 performance year but based on 2019 we are anticipating a maximum upside/downside risk of $600,000. We have included an estimated risk (loss) of $144,700 in the 2020 Budget.

   i. How is the risk (up and downside) accounted for in the financials? How will the hospital manage financial risk while maintaining access to high quality care and appropriate levels of utilization?

      The risk is accounted for similar to a contractual allowance and is included as a reduction of patient service revenue. We do not anticipate that the risk level will challenge us to maintain access to care.

   ii. How will the hospital track and ensure that provider financial incentives do not have a negative impact on patient care?

      The hospital has rigorous quality and compliance programs that actively monitor patient care outcomes. We have not put provider financial incentives in place that will negatively impact patient care.

C. What amount of Other Reform Payments does the hospital expect to receive from OneCare Vermont by the end of calendar year 2020 (e.g., payments from OneCare's Value-Based Incentive Program based on quality performance)?

The organizational structure of the hospital and primary care in Rutland is somewhat different than the rest of the State. The hospital and the FQHC operate as two separate and distinct organizations. As a result of the operational structure RRMC does not attribute many lives. We expect minimal payments related to population health or care management. The hospital's share of Population Health and Value Based Incentives is also minimal, less than $40,000 per year.

D. Are the hospital's employees attributed to OneCare, either through participation in a OneCare self-insured program or, if fully-insured, through the hospital's insurer? If not, why not?

No, the hospital employees covered under our self-insured plan are not attributed to OneCare. Although OneCare has designed a self-insured risk program for the University of Vermont Medical Center they have not offered similar programs to other hospitals' self-insured plans. We are participating in the UVMMC risk program, but attribution is minimal. We also continue to be receptive of self-insured risk programs that would allow participation of our employer plan.

E. How is the hospital changing the allocation of resources in its budget to improve population health, under the All-Payer ACO Model and/or other initiatives?

The organizational structure of the hospital and primary care in Rutland are somewhat different than the rest of the State. The hospital and the FQHC operate as two separate and distinct organizations. As a result of these operational structures RRMC does not attribute lives or provide any primary care services, yet we fund population health and care management payments to primary care. Included in the 2020 Budget are payments of $722,000 that support population health funding.

RRMC also operates the Blueprint for Health program. While this program is primarily grant funded, we do expend more resources than we receive in grant funding. As part of the 2020 Budget our support of Blueprint exceeds our grant funding by $36,000.

RRMC continues to support the FQHC and Community Health in the provision of IT support services. Specifically, RRMC provides $248,700 of funding to allow the FQHC access to IT support services.

RRMC has made a significant investment in social work resources in our Emergency Department (3.9 FTEs) and in specialty care practices (5 FTEs) with the aim of proactively addressing the social, emotional, psychological and behavioral barriers to health. Utilizing a standardized screening for social determinants of health and suicide risk, these staff provide assessments, referrals, care coordination, and brief counseling when indicated. By identifying and addressing patient factors that exacerbate health conditions and contribute to

excess utilization we expect to improve the overall health status of patients while reducing unnecessary utilization of high cost services.

3. *Reconciliation.* Provide a summary income statement that shows a reconciliation between FY 2019 approved budget and FY 2019 full-year projection, showing both positive and negative variances. Explain the variances.

   Refer to Exhibit A

4. *Budget-to-budget growth.*
   A. Net Patient Revenue and Fixed Prospective Payments (NPR/FPP):
      i. Explain the budgeted FY 2020 NPR/FPP increase over the approved FY 2019 budget and over the FY 2019 full-year projection. If the GMCB rebased the hospital's budget for the purpose of calculating FY 2020, provide the budgeted increase in NPR/FPP for FY 2020 measured from the hospital's rebased budget.

         The 2020 Budget includes a 3.5% net patient revenue increase as allowed by the Green Mountain Care Board.

      ii. Describe any significant changes made to the FY 2019 budget (including, but not limited to, changes in anticipated reimbursements, physician acquisitions and certificates of need) and how they affect the FY 2020 proposed budget.

         Reimbursement assumptions are supported by proposed regulations from Medicare and Medicaid and specific commercial payer contracts. One of the largest impacts to reimbursements relates to the increase in our Bad Debt and Free Care reserves. Consistent with Fiscal 2019 projection, these reserves represent $16.0 million of total deductions or 2.7% of Gross Patient Service Revenue. In addition, we are seeing an erosion of our commercial base whereby rate increases are proving to be less impactful as they only net $1,040,730 for every 1% of increase.

         RRMC continues to expand the 340B Program by contracting with more retail pharmacies. Our 2020 budget includes 340B contracts for Beauchamp & O'Rourke, Kinney Drugs, Walmart, Rite Aid, and CVS. RRMC is currently working on contracts with Price Chopper and Hannaford's but have not assumed any 2020 revenue. Our 340B program is increasing $3.3 million.

         Overall RRMC's cost structure has increased budget to budget by 4.2%. We have included a 3% wage increase, effective in December 2019. Our Union contract expires in September 2021 and salaries for budget 2020 are

consistent with the union contract. There is immense upward market pressure on RN and physician salaries nationwide. We have also budgeted funds (approximately .75%) to support recruitment efforts in positions, particularly in those areas (RNs, MDs and Techs) where we face highly competitive hiring environments.

iii. Describe any cost savings initiatives proposed in FY 2020 and their effect on the budget.

A significant amount of effort was placed on cost control activities. Our budget includes supply cost savings of $2.2 million, or a 2.3% reduction, from the budgeted 2019 levels. The reductions are as follows:

Decreases:			
Pharmaceuticals	(7.6%)	($1,000,000)	Vizient Group Purchasing, 340B Medicaid
Operating Room Supplies	(5.7%)	($ 518,000)	Vizient Group Purchasing
Fiscal Services and Executive Offices	(19%)	($ 235,000)	Decrease in various expenses
Project Management	(40%)	($ 152,000)	Overall department decrease
Organizational Discretionary Spending		($ 295,000)	

In addition to supply cost savings RRMC also reduced a select number of positions, in total 15 FTEs were eliminated. The position eliminations resulted in salary savings of $1.8 million.

iv. Explain changes in NPR/FPP expected for each payer source:

a. Medicare revenue assumptions: Identify and describe 1) any significant changes to prior year Medicare reimbursement adjustments (e.g. settlement adjustments, reclassifications) and their effect on revenues; 2) any major changes that occurred during FY 2019 that were not included in the FY 2019 budget, and 3) any anticipated revenues related to meaningful use and 340B funds in FY 2020.

The 2020 Budget Assumptions include:

- Medicare Inpatient Rates - Market Basket Update and Wage Index decline nets 2.6%.
- Outpatient Rates - No anticipated reimbursement changes.
- Physician Rates - Negligible: 0.5% rate increase effective 1/1/20.

b. Medicaid revenue assumptions: Budget for NPR/FPP expected from rate changes, utilization, and/or changes in services.

- Medicaid Inpatient Rates - No change.
- Medicaid Outpatient Rates - Increase in percent of Medicare rate from 86% to 87%.
- Physician Rates - Standard RVU conversion factor increase from $28.71 to $29.71.

c. Commercial/self-pay/other revenue assumptions: Commercial insurance revenue estimates should include the latest assumptions available to the hospital and any other factors that may explain the change in NPR/FPP.

2020 Budget assumptions:

- Commercial rates consistent with contract rates.
- Self-Pay Reserve - set at 2.7% of gross revenue.
  - Supports an increase for the reserve of co-pays and deductibles (under-insured).

v. Complete Appendix VI, Table 1. If the hospital categorizes revenue differently than as indicated in the table, provide such categories, including labels and amounts, in the "Other" rows.

Refer to Appendix VI.

B. Expenses:

i. Explain changes in budgeted FY 2020 expenses over the approved FY 2019 budget net expenditure increase and the FY 2019 full-year projection. If the GMCB rebased the hospital's budget for the purpose of calculating FY 2020, provide the budgeted changes in expenses for FY 2020 measured from the hospital's rebased budget.

Budget 2020 Overall Operating Expenses are 4.2% greater than Budget 2019 Expenses, or $11.3 million. The major increase/decreases are:

Pharmaceuticals and 340B Pharmacy Program	$5,200,000
Physician Contracts	$2,300,000
Salaries	$2,700,000
Overall Supplies	$1,400,000
Contract Staffing	$1,000,000
ACO and GMCB Fees	$ 700,000
IT Contract (Cerner)	$ 600,000
Cost Savings (Pharmacy and Supplies)	($2,200,000)
Salaries (FTE reductions)	($1,800,000)
Salaries (FTE increase Psych Ligature Risk)	$1,200,000

Budget 2020 Overall Operating Expenses are 2.2% greater than FY 2019 full year projection, or $6.0 million. The major increases are:

Salaries	$2,600,000
Fringe Benefits (FICA, Health Insurance)	$2,400,000
Physician Contracts	$ 700,000

ii. Describe any significant changes made to the FY 2019 budget (including, but not limited to, changes in costs of labor, supplies, utilization, capital projects) and how they affect the FY 2020 proposed budget. Provide assumptions about inflation and major program increases.

FY 2019 full year Projection Overall Operating Expenses were 2%, or $5.2 million, greater than FY 2019 Budget. Significant changes from FY 2019 budget and FY 2019 full year projection are Physician Contracts, Contract Staffing and pharmacy inflation.

Physician contracts are budgeted in 2020 based on the effective rates set forth in contracts. Contract staff is budgeted to include 25 FTEs to support vacancies and new RN orientation. Pharmaceutical inflation is budgeted at 6%. Pharmaceutical inflation is based on 2019 formulary.

iii. Describe any cost saving initiatives proposed in FY 2020 and their effect on the budget.

A significant amount of effort was placed on cost control activities. Our budget includes supply cost savings of $1.9 million, or 1.5% reduction, from the budgeted 2019 levels. The reductions are as follows:

Decreases:			
Pharmaceuticals	(7.6%)	($1,000,000)	Vizient Group Purchasing, 340B Medicaid
Operating Room Supplies	(5.7%)	($518,000)	Vizient Group Purchasing
Fiscal Services and Executive Offices	(19%)	($235,000)	Decrease in various expenses
Project Management	(40%)	($152,000)	Overall department decrease
Organizational Discretionary Spending		($ 295,000)	

iv. Complete Appendix VI, Table 2. If the hospital categorizes expenses differently than as indicated in the tables, provide such categories, including labels and amounts, in the "Other" rows.

Refer to Appendix VI - Bridges Table 2.

5. *Bad Debt.*
    1. Provide the amount of bad debt carried by the hospital at the close of FY 2017 and FY 2018, using the table in Appendix VII.

    Refer to Appendix VII.

    2. If the hospital contracts with a collection agency, provide the name of the agency.

    RRMC uses two collection agencies:

    - Asset Recovery, located in our service area Rutland, VT.
    - CBCS located in Jacksonville, FL with a regional office in Bedford, NH.

    3. In your opinion, explain whether the agency adheres to "patient friendly billing" guidelines. *See* http://www.hfma.org/Content.aspx?id=1033.

    We believe that the agencies adhere to patient friendly billing guidelines, both in terms of written and verbal communications. Our statements are consistent with other healthcare statements and each of the agencies follow RRMC collections, payment and free care policies.

6. *Operating Margin and Total Margin.* Explain the hospital's Operating Margin and Total Margin in the FY 2020 proposed budget, including budgeted FY 2020 Operating Margin and Total Margin changes over the approved FY 2019 budget and the FY 2019 full-year projection.

Operating Margin: The budgeted operating margin of 2.5% has been consistent over the last three years. Given the demands on labor and healthcare inflation we have been challenged in meeting our operation margin. Over the past 3 years, including 2019 projection, our operating margin is expected to be $9.5 million against a budget of $18.0 million. This represents a three-year margin of approximately 1.3%.

	2017	2018	2019	2020
Budget	$6,104,888	$5,704,353	$6,201,128	$6,699,103
Actual	$4,163,384	$1,297,252	$4,071,236	$-

The budgeted margin is necessary to support our cash flows. The margin at 2.5% generates $6.7 million and is used to fund the following:

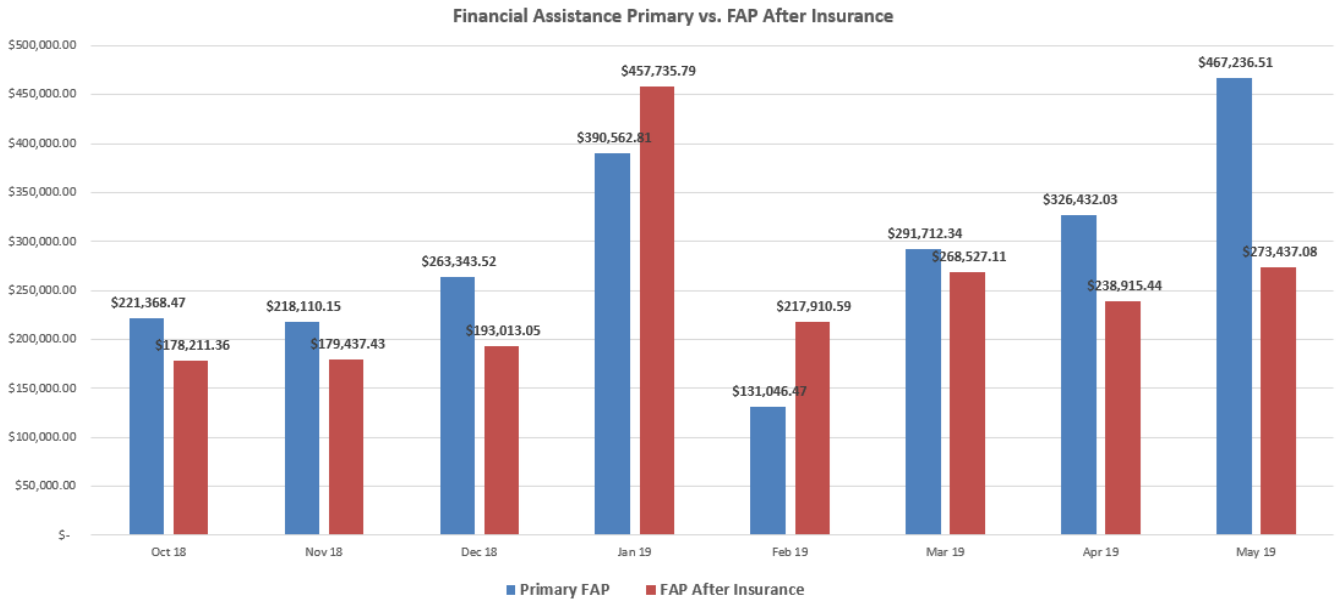
- Principal Payments $2.1 million
- Pension Funding $2.0 million
- Capital Investment $2.6 million (spend greater than depreciation)

Total Margin: Our total margin, the sum of the operating margin and investment income, is budgeted at 4.9% or $13.2 million. We base our investment return on a 6% rate of return. Our total margin is important as it supplements operating losses and allows management of our cash flow, while still investing in capital and funding our pension plan. Over the past 3 years our total margin supplemented operating margin deficits, and therefor allowed for overall positive financial performance.

7. *Charge Request.*
   A. Provide the hospital's budgeted overall charge increase or decrease and describe how the increase or decrease was calculated by payer type, including the calculation of the impact of the change in charge on gross revenue and net patient revenue. Explain how the charge was derived and what assumptions were used in determining the increase or decrease. Complete the table in Appendix VIII.

RRMC is requesting a 2.65% rate increase effective October 1, 2019. Each percent of rate increase provides approximately $1,040,730. Although the rate increase results in a total of $15 million in gross revenue, it only provides $2.7 million of additional net revenue. This is a result of our payer mix and the fact that Medicare, Medicare Advantage and Medicaid programs do not participate in rate increases.

The requirement of the rate increase directly relates to an increase in our free care program. Our need to provide free care has increased by $2.5 million from budget to budget. We have not changed the eligibility of free care, rather this is a result of an increase in patients who have insurance but can't afford deductibles and copays. Nearly 48% of our free care is provided to patients who have some level of insurance.



B. For each payer, if the NPR/FPP budget-to-budget increase or decrease is different than the overall change in charge - for example, if the requested commercial "ask" differs from the change in overall charge - explain why they differ.

We have budgeted to place the rate increase evenly over all payers. Even though rates are consistently applied across all payers, not all payers participate in the rate increase. Any change in net reimbursement at the payer level is due to payment rule changes initiated by payers.

C. In April/May, the GMCB will provide a Charge Schedule for reporting the change in charges for each major line of business and the gross and net revenues expected from each payer as a result of the change in charges.

Refer to Appendix VIII.

RRMC does not have either overall NPSR or NPSR by payer at the service level of detail.

D. In April/May, the GMCB will provide each hospital with a hospital-specific Cost Shift Analysis. Explain how the hospital addressed the cost shift in FY 2018, especially given the hospital's payer mix.

To address the cost shift, throughout 2018, RRMC developed a pricing strategy preparing to implement a targeted rate reduction in high end diagnostic imaging procedures. The 2019 rate reduction lowered patient rates in MRI by approximately $1,040,730. This directly benefits the commercial payers with contractual discounts based on patient charge amount. This strategy has continued in the 2020 budget with further reductions in MRI services and expanding to CT Scan and Ultrasound services representing another $774,000.

RRMC also focused on expense reductions where appropriate to lower the demand for net revenue increases. In 2018 and forward RRMC implemented expense reductions in staffing, fringe benefits and supplies. The 2020 expense reductions total $4 million.

The payer mix in the RRMC hospital service area averages 69% Medicare and Medicaid. The reimbursement to cost ratio for payers is a measure of the cost of care compared to reimbursement rates by payer. Below is the trend from Actual 2018 to Budget 2020 showing commercial payers cost shift is steady with a slight improvement in Medicaid and a worsening of the Medicare cost coverage rate. Neither Medicare or Medicaid are covering the cost of the care provided to their beneficiaries.

Reimbursement to Cost Rate

Payer	***2018 Actual***	***2020 Budget***
Commercial	175%	176%
Medicare	78%	71%
Medicaid	44%	47%

8. *FY 2018 variances.* For those hospitals that received a letter regarding their FY 2018 budget-to-actual variance, specifically address the issues and requirements outlined in the letter.

N/A

9. *Capital budget investments.* Describe the major investments, including projects subject to certificate of need review, that have been budgeted for FY 2020 and their effect on the FY 2020 operating budget. In addition, describe investments in routine repairs and replacements.

RRMC's strategy is to fund capital replacement at 1.2 times our depreciation. Funding at this level allows us to manage our cash flow while still maintaining the age of plant. RRMC's age of plant is projected to be 14 years in the 2020 budget.

RRMC currently has four approved CoN projects:

1. **Replacement of Nuclear Medicine Camera. Project Cost: $2,840,596.**

   The Certificate of Need for the Nuclear Medicine Camera Project was approved on July 26, 2017. Project work began in April 2018 with an anticipated completion date of July 2019. Total spend through 4/30/19 was $2,376,041.

2. **Medical Office Building, Loading Dock and VOC Renovations. Project Cost $23.9 million.**

   The Certificate of Need for the Medical Office Building was approved January 23, 2018. This project is expected to be complete in FY 2021. Total spent through 4/30/19 was $2,188,357.

3. **Replacement of CT Scanner. Project Cost $2,024,027.**

   The Certificate of Need for the CT Scanner Replacement was approved on February 12, 2019. The equipment has been ordered. Project work is expected to begin in August 2019.

4. **Renovations and Remediation of Ligature Risks. Project Cost $4,067,353.**

   The Certificate of Need for the Renovations and Remediation of Ligature Risks was approved June 20, 2019.

In support of the Uniform Reporting Guidelines, we are not allowed to budget expenditures related to Certificate of Need projects that have not been approved. We have not budgeted any operational expenses related to unapproved Certificate of Need projects. We are also planning to submit a Certificate of Need for MRI Replacement with an estimated cost of $3,104,885.

The three largest routine repair and replacement projects budgeted for FY 2020 are as follows:

- Chiller Plant Upgrade $2,589,678.
- AHU 3 Replacement $1,229,175.
- West St. Data Center Generator, UPS and Cooling $679,957.

10. *Technical concerns.* Explain any technical concerns or reporting issues the GMCB should examine for possible changes in the future.

Appendix VIII: Charge Request - We are not able to track the change in net patient service revenue by category of service by payer. Not all payers submit payment information that aligns with a category of service.

Salary Information

1. Submit a full copy of the hospital's most recent Form 990 (for Actual 2017 or 2018), including the most current version of Schedule H (most likely filed in 2018) that has been submitted to the Internal Revenue Service as part of the hospital organization's Form 990 reporting obligations under Section 501(c)(3) of the Internal Revenue Code. Provide a single copy of these documents.

   Refer to Exhibit B

2. Complete the Table in Appendix IX. If staff in hospital-owned provider practices are included on a separate Form 990, include salaries for those positions in the table.

   Refer to Appendix IX.

3. Submit the hospital's policy or policies on executive, provider, and non-medical staff compensation.

   Refer to Exhibit C - Key Employee Compensation

   Refer to Exhibit D - Compensation Program Policy

   Refer to Exhibit E - Employed Physician Compensation and Benefits

4. Identify:
   i. Outside consultants relied on for benchmarking;

      Data from the HR consulting firms of Mercer, Towers-Watson, Korn Ferry/Hay Group, Medical Group Management Association (MGMA), DataDive Provider Compensation Data, and Vermont Association of Hospitals and Health Systems are used for salary benchmarking purposes.

      Physician compensation consultants:
      - Lisa K. Blumstein, TriNet Healthcare Consultants
      - Pinnacle Healthcare Consulting, proprietary Fair Market Value Report, which utilizes data from (1) Medical Group Management Association, Provider Compensation Survey, (2) Sullivan Cotter & Associates Physician Compensation and Productivity Survey Report, (3) Hospital & Healthcare Compensation Service, Physician Salary Survey Report, (4) American Medical Group

Association, Compensation and Productivity Survey, (5) Hay Group, Physician Compensation Report.

ii. Peer groups to which the hospital benchmarks;

Benchmarks used are typically Revenue, Geography (Northeast, VT/NH, and National), and FTEs, depending on the available labor market.

iii. Compensation targets in terms of percentiles for each staff category; and

The compensation target for all jobs is generally the 50th percentile (median) of the applicable market data. Benchmarks used are typically Revenue, Geography (Northeast, VT/NH, and National), and FTEs, depending on the available labor market. Data from the HR consulting firms of Mercer, Towers-Watson, Korn Ferry/Hay Group, MGMA, and Gallagher are used for compensation benchmarking purposes. The Employed Physician Compensation Plan aligns physician compensation with their level of productivity in accordance with the Medical Group Management Association and other national benchmarks.

iv. The hospital's actual compensation level, compared to target, for each employee group (e.g. executive, provider, non-medical staff)

Actual (average) compensation levels vs. the 50th percentile (median) are as shown for the following employee groups:

- Executive: -0.7%
- Advanced Practice Provider: 6%
- Non-Medical Staff (all non-provider staff): -0.9%
- Bedside RNs: -0.7%

Organizational Structure

Provide the hospital's organizational chart including parent companies, subsidiaries, affiliated entities, etc. Describe all entities related financially to the hospital, the purpose of each entity, and the financial relationships between the entities (e.g., parent organization, subsidiary organization, membership organization, etc.). Identify any entities that the hospital or its parent organization owns in part or in full, identify any entities that own the hospital in part or in full, and indicate whether any members of the hospital's senior management team are paid by hospital-related entities other than the hospital. Identify and describe areas of financial risk associated with these organizational relationships.

RRMC is a wholly owned subsidiary of Rutland Regional Health Services, Inc. (RRHS). RRHS is a tax-exempt holding company organized to carry on planning, fundraising activities and manage related

investments. RRMC is the sole member of RRHS. RRHS is a one-half partner in The Meadows Associates, Vermont Sports Medicine Center and The Gables. Annually, RRHS receives distributions from these partnerships of approximately $1.0 million. The financial operations of RRHS share the same management structure as RRMC. The Chief Financial Officer holds that position in both RRMC and RRHS.