

Northeastern VT Regional Hospital

Fiscal Year 2019 Budget Analysis

Report Date: 7/30/2018

QUESTIONS

HIGH-LEVEL OBSERVATIONS:

NVRH calculated its NPR growth rate based on the Board-approved FY2018 Budget (\$77,077,400). However, in its technical notes, the hospital suggested that there should be adjustments for the base for various items, such as application of a 3.4% growth rate to the FY2017 approved NPR, additional funds related to the cardiology transfer from CVMC. If the Board were to approve all of those adjustments, the FY2018 base would be higher, and the FY2019 Budget NPR growth rate would be within the 3.2% target (inclusive of the 0.4% allowance for health reform investments).

QUESTIONS:

1. Have the hospital's projections for FY2018 changed?
2. Please explain factors in the changes in Bad Debt and Free Care in the FY2019 Budget (including policy changes if any).
3. Please provide more specificity about what is included in Other Operating Expense for FY2017 Actuals, FY2018 Budget and Projections, and FY2019 Budget, and explain the variation from year to year.
4. What is causing the increase in Other Current Assets from FY2018 Budget to FY2019 Budget?
5. NVRH's narrative describes increased staffing costs related to mental health patients and CMS requirements. Are these increased costs related to the increase from FY2018 Budget and Projections to FY2019 Budget in Salary per FTE - Non-MD and Salary & Benefits per FTE - Non-MD? Please describe factors leading to this increase.
6. For FY2019 Budget, Cost per Adjusted Admission is budgeted at the FY2017 Actuals level. This is an increase of 9% over FY2018 Projections; please explain what is causing the variance.
7. The St. Johnsbury health service area has a rate that is higher than the statewide rate for Growth in the Number of Mental Health and Substance Use-Related ED Visits. Please describe quality improvement activities related to reducing the rate of growth.
8. One of NVRH's proposed health care reform investments relates to ACO dues or investment in the Cal-Essex Accountable Health Community Organization (CAHC). If the funds are allocated to CAHC, how would NVRH propose to report on how the funds are spent and how the investment more specifically relates to the state's health care reform goals?

Fiscal Year 2019 Budget Analysis							Northeastern VT Regional Hospital		
INCOME STATEMENT	FY2015A	FY2016A	FY2017A	FY2018B	FY2018P	FY2019B	2018B - 2018P	2018B - 2019B	2018P - 2019B
							% Chg	% Chg	% Chg
Revenues									
Gross Patient Care Revenue	131,890,992	146,066,754	157,055,100	164,561,400	164,399,600	170,619,500	-0.1%	3.7%	3.8%
Disproportionate Share Payments	1,636,300	1,528,180	1,578,800	1,075,300	1,053,000	953,000	-2.1%	-11.4%	-9.5%
Bad Debt	(3,154,200)	(3,443,155)	(3,387,300)	(3,535,600)	(3,051,500)	(3,192,800)	-13.7%	-9.7%	4.6%
Free Care	(2,214,500)	(2,675,006)	(2,666,000)	(2,797,400)	(2,906,200)	(3,040,800)	3.9%	8.7%	4.6%
Deductions from Revenue	(62,609,998)	(69,890,222)	(75,785,900)	(82,226,300)	(81,668,100)	(84,400,203)	-0.7%	2.6%	3.3%
Net Patient Care Revenue	65,548,594	71,586,551	76,794,700	77,077,400	77,826,800	80,938,697	1.0%	5.0%	4.0%
Fixed Prospective Payments & Reserves	0	0	0	0	0	0	#DIV/0!	#DIV/0!	#DIV/0!
Net Patient Care Revenue & Fixed Payments & Reserves	65,548,594	71,586,551	76,794,700	77,077,400	77,826,800	80,938,697	1.0%	5.0%	4.0%
Other Operating Revenue	1,292,542	1,727,715	2,078,086	2,955,000	3,444,600	3,692,700	16.6%	25.0%	7.2%
Total Operating Revenue	66,841,136	73,314,266	78,872,786	80,032,400	81,271,400	84,631,397	1.5%	5.7%	4.1%
Expenses									
Salaries Non MD	22,292,961	24,242,683	26,356,397	27,401,163	27,962,270	29,040,250	2.0%	6.0%	3.9%
Fringe Benefits Non MD	8,356,620	8,331,196	8,579,339	8,491,670	8,956,000	9,080,900	5.5%	6.9%	1.4%
Fringe Benefits MD	1,646,055	1,982,486	2,896,100	2,544,630	2,469,500	2,643,685	-3.0%	3.9%	7.1%
Physician Fees, Salaries, Contracts	6,021,231	8,461,060	8,587,869	9,463,870	9,473,750	10,371,950	0.1%	9.6%	9.5%
Health Care Provider Tax	3,610,431	3,955,536	4,297,275	4,582,000	4,487,500	4,600,000	-2.1%	0.4%	2.5%
Depreciation & Amortization	2,507,662	2,682,249	2,940,589	3,019,000	3,407,000	3,450,000	12.9%	14.3%	1.3%
Interest - Long Term & Short Term	390,431	327,021	280,685	386,000	266,000	350,000	-31.1%	-9.3%	31.6%
Other Operating Expense	20,548,000	21,844,095	23,457,159	22,690,767	22,793,880	23,655,412	0.5%	4.3%	3.8%
Total Operating Expense	65,373,391	71,826,326	77,395,413	78,579,100	79,815,900	83,192,197	1.6%	5.9%	4.2%
Net Operating Income (Loss)	1,467,745	1,487,940	1,477,373	1,453,300	1,455,500	1,439,200	0.2%	-1.0%	-1.1%
Non-Operating Revenue	(1,099,487)	906,415	(990,611)	0	0	0	#DIV/0!	#DIV/0!	#DIV/0!
Excess (Deficit) of Rev Over Exp	368,258	2,394,355	486,762	1,453,300	1,455,500	1,439,200	0.2%	-1.0%	-1.1%
Benchmarks-Hospital									
Operating Margin%	2.2%	2.0%	1.9%	1.8%	1.8%	1.7%			
Total Margin %	0.6%	3.2%	0.6%	1.8%	1.8%	1.7%			
Cost per Adjusted Admission	12,263	11,269	12,770	12,381	11,742	12,792			
<p>Observations: NVRH's NPR increase of \$3.9 million is 5.0% over the FY2018 Budget. This is approximately \$1.4 million over the 3.2% NPR growth target, including the 0.4% allowance for healthcare reform investments. This is predominantly related to increases in utilization and the rate increase of 4%. Expenses are increasing at 5.9% compared to the FY2018 Budget and 4.2% compared to FY2018 Projections. The hospital has budgeted a 1.7% operating margin, which appears in line with previous years. Other Operating Expenses are increasing 4.3%.</p> <p>Questions: Please provide more specificity about what is included in Other Operating Expense. Cost per Adjusted Admission is budgeted at the FY2017 Actuals level. This is an increase of 9% over FY2018 Projections; please explain what is causing the variance.</p>									

Fiscal Year 2019 Budget Analysis **Northeastern VT Regional Hospital**

NET PAYER REVENUE CHANGE - PAYERS		FY2018B	FY2018P	FY2019B	2018B - 2018P % Chg	2018B - 2019B % Chg	2018P - 2019B % Chg	Change due to Rate	Change due to Non-Rate Items
All Payers	Gross Patient Care Revenue	\$164,561,400	\$164,399,600	\$170,619,500	-0.1%	3.7%	3.8%		
	Contractual Allowances	(\$82,226,300)	(\$81,668,100)	(\$84,400,203)	-0.7%	2.6%	3.3%		
	Bad Debt	(\$3,535,600)	(\$3,051,500)	(\$3,192,800)	-13.7%	-9.7%	4.6%		
	Free Care	(\$2,797,400)	(\$2,906,200)	(\$3,040,800)	3.9%	8.7%	4.6%		
	Graduate Medical Education Payments	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!		
	Disproportionate Share Payments	\$1,075,300	\$1,053,000	\$953,000	-2.1%	-11.4%	-9.5%		
	Net Payer Revenue	\$77,077,400	\$77,826,800	\$80,938,697	1.0%	5.0%	4.0%		
Fixed Prospective Payments & Reserves	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!			
Net Patient Care Rev & Fixed Payments & Reserves	\$77,077,400	\$77,826,800	\$80,938,697	1.0%	5.0%	4.0%	\$1,537,600	\$3,861,297	
Commercial									
Commercial	Gross Patient Care Revenue	\$60,465,700	\$60,862,400	\$63,172,000	0.7%	4.5%	3.8%		
	Contractual Allowances	(\$17,345,100)	(\$20,257,700)	(\$20,403,820)	16.8%	17.6%	0.7%		
	Bad Debt	(\$3,535,600)	(\$3,051,500)	(\$3,192,800)	-13.7%	-9.7%	4.6%		
	Free Care	(\$2,797,400)	(\$2,906,200)	(\$3,040,800)	3.9%	8.7%	4.6%		
	NPR	\$36,787,600	\$34,647,000	\$36,534,580	-5.8%	-0.7%	5.4%		
	Fixed Prospective Payment & Reserves	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!		
	Total Net Payer Revenue & Fixed Prospective Payment	\$36,787,600	\$34,647,000	\$36,534,580	-5.8%	-0.7%	5.4%	\$1,537,600	(\$1,790,620)
Medicaid									
Medicaid	Gross Patient Care Revenue	\$34,465,200	\$34,107,400	\$35,399,460	-1.0%	2.7%	3.8%		
	Contractual Allowances	(\$24,059,300)	(\$22,185,500)	(\$23,550,300)	-7.8%	-2.1%	6.2%		
	Bad Debt	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!		
	Free Care	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!		
	Graduate Medical Education Payments	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!		
	NPR	\$10,405,900	\$11,921,900	\$11,849,160	14.6%	13.9%	-0.6%		
	Fixed Prospective Payment & Reserves	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!		
Total Net Payer Revenue & Fixed Prospective Payment	\$10,405,900	\$11,921,900	\$11,849,160	14.6%	13.9%	-0.6%	\$0	\$1,443,260	
Medicare									
Medicare	Gross Patient Care Revenue	\$69,630,500	\$69,429,800	\$72,048,040	-0.3%	3.5%	3.8%		
	Contractual Allowances	(\$40,821,900)	(\$39,224,900)	(\$40,446,083)	-3.9%	-0.9%	3.1%		
	Bad Debt	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!		
	Free Care	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!		
	NPR	\$28,808,600	\$30,204,900	\$31,601,957	4.8%	9.7%	4.6%		
	Fixed Prospective Payment & Reserves	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!		
	Total Net Payer Revenue & Fixed Prospective Payment	\$28,808,600	\$30,204,900	\$31,601,957	4.8%	9.7%	4.6%	\$0	\$2,793,357
Disproportionate Share Payments	\$1,075,300	\$1,053,000	\$953,000	-2.1%	-11.4%	-9.5%		(\$122,300)	
NPR to Gross Commercial (no dsh)	60.8%	56.9%	57.8%						
NPR to Gross Medicaid (no dsh)	30.2%	35.0%	33.5%						
NPR to Gross Medicare (no dsh)	41.4%	43.5%	43.9%						
NPR to Gross All (no dsh)	46.2%	46.7%	46.9%						

Observations: The NPR increase is primarily due to utilization changes, the requested rate/price increase, and a change in Medicare cost reimbursement for this critical access hospital (CAH) of \$1.5 million. NPR to Gross Ratios for Medicare and Medicaid have increased; the Commercial Ratio has decreased.

Disproportionate Share Payments are budgeted to decrease \$122,300 from FY2018 to FY2019.

Northeastern VT Regional Hospital

RATE AND NET PATIENT REVENUE INCREASE

Rate is the average change in price for services provided.

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Weighted Average Approved Rate (all hospitals)	6.82%	4.37%	1.67%	2.04%	
Weighted Average Submitted Rate (all hospitals)	6.82%	4.40%	2.21%	2.34%	3.12%
Northeastern VT Regional Hospital Approved Rate	5.00%	5.20%	3.75%	3.20%	
Northeastern VT Regional Hospital Submitted Rate	5.00%	5.20%	3.75%	4.25%	4.00%

Hospital Inpatient Gross Revenue	4.6%
Hospital Outpatient Gross Revenue	4.6%
Physician Outpatient Gross Revenue	0.0%
Chronic/SNF Gross Revenue	0.0%
Swing Gross Revenue	4.6%

Net Patient Revenue Change Due to Rate Request		
	Commercial	\$ 1,537,600
	Medicaid	\$ -
	Medicare	\$ -
	Disproportionate Share	\$ -
	Total Change Due to Rate Request	\$ 1,537,600

Value of 1% Rate - Calculated by GMCB	\$ 384,400
Value of 1% Rate - Calculated by NVRH	\$ 384,500
	Variance \$ (100)

NVRH has a rate/price request of 4.00%.

The 4.00% will result in increased NPR of \$1.5 million.

For NVRH, every 1% increase in rate/price is worth approximately \$384,400 in net patient revenue. This estimate calculated by GMCB staff closely matches the estimated value of a 1% increase calculated by the hospital.

Fiscal Year 2019 Budget Analysis	Northeastern VT Regional Hospital					
DASHBOARD	FY2015A	FY2016A	FY2017A	FY2018B	FY2018P	FY2019B
Net Patient Care Revenue	65,548,594	71,586,551	76,794,700	77,077,400	77,826,800	80,938,697
Net Patient Care Rev & Fixed Payments & Reserves	65,548,594	71,586,551	76,794,700	77,077,400	77,826,800	80,938,697
NPR & FPP % Variance		9.2%	7.3%	0.4%	1.0%	4.0%
Three Year NPR & FPP CAGR* (FY16A - FY19B)						4.2%
Operating Expense	65,373,391	71,826,326	77,395,413	78,579,100	79,815,900	83,192,197
Oper Exp % Variance		9.9%	7.8%	1.5%	1.6%	4.2%
Three Year Oper. Exp. CAGR* (FY16A - FY19B)						5.0%
Revenue						
Operating Margin %	2.2%	2.0%	1.9%	1.8%	1.8%	1.7%
Total Margin %	0.6%	3.2%	0.6%	1.8%	1.8%	1.7%
Bad Debt %	2.4%	2.4%	2.2%	2.1%	1.9%	1.9%
Free Care %	1.7%	1.8%	1.7%	1.7%	1.8%	1.8%
Cost						
Cost per Adjusted Admission	12,263	11,269	12,770	12,381	11,742	12,792
Overhead Exp. as a % of Total Operating Exp.	22.3%	21.0%	21.4%	21.5%	21.0%	21.5%
Productivity & Utilization						
Acute Admissions	1,233	1,367	1,259	1,340	1,445	1,395
Adjusted Admissions	5,331	6,561	6,240	6,347	6,798	6,503
Average Length of Stay	3	3	4	3	3	3
FTEs Per Adjusted Occupied Bed	8	7	8	8	7	8
FTEs per 100 Adj Discharges	7	6	7	7	6	7
Cash						
Days Cash on Hand	131.3	123.1	124.0	116.2	127.6	122.3
Current Ratio	2.9	2.7	2.7	2.8	4.0	3.2
Capital						
Age of Plant	13.2	13.1	13.0	13.6	12.2	13.1
Long Term Debt to Capitalization				28.9%	30.3%	28.7%
Debt Service Coverage Ratio	4.88	4.29	4.61	3.60	5.10	2.19
*CAGR = Compounded Annual Growth Rate						

Fiscal Year 2019 Budget Analysis **Northeastern VT Regional Hospital**

UTILIZATION & STAFFING **FY2015A** **FY2016A** **FY2017A** **FY2018B** **FY2018P** **FY2019B** **2018B-2018P** **2018B-2019B** **2018P-2019B**

UTILIZATION									
Adjusted Admissions	5,331	6,374	6,061	6,347	6,798	6,503	7.1%	2.5%	-4.3%
Acute Admissions	1,233	1,367	1,259	1,340	1,445	1,395	7.8%	4.1%	-3.5%
Acute Average Length Of Stay	3.3	3.2	3.4	3.2	3.1	3.2	-2.7%	0.2%	2.9%
All Operating Room Procedure	2,814	3,050	3,112	3,400	3,225	3,400	-5.1%	0.0%	5.4%
Tests	170,550	180,250	182,301	123,524	127,333	128,223	3.1%	3.8%	0.7%
Emergency Room Visits	14,051	14,358	14,130	14,300	14,500	14,500	1.4%	1.4%	0.0%
CT Scan, Radiology - Diagnostic	25,383	28,136	26,005	26,424	26,294	26,339	-0.5%	-0.3%	0.2%
Exams	1,225	1,235	1,297	1,400	1,250	1,400	-10.7%	0.0%	12.0%
Provider Work RVU	0	0	0	0	0	0	#DIV/0!	#DIV/0!	#DIV/0!
Physician Office Visits	66,909	71,707	71,565	76,890	71,345	71,850	-7.2%	-6.6%	0.7%
Clinic Visits	0	0	0	0	0	0	#DIV/0!	#DIV/0!	#DIV/0!

STAFFING									
FT Equivalents (Heads)	394	403	431	403	403	407	1	5	4
Travelers, Travelers MD	0	0	0	0	0	0	0	0	0
Residents & Fellows	0	0	0	0	0	0	0	0	0
MLPs	0	0	0	29	29	29	(0)	(1)	(0)
Physician FTEs	25	30	30	33	31	34	(1)	2	3
Total FTEs	419	434	460	464	463	470	(1)	6	7

Benchmarks-Hospital									
Salary per FTE - Non-MD	\$ 56,595	\$ 60,103	\$ 61,194	\$ 63,458	\$ 64,727	\$ 66,621	2.0%	5.0%	2.9%
Salary & Benefits per FTE - Non-MD	\$ 77,811	\$ 80,758	\$ 81,114	\$ 83,124	\$ 85,459	\$ 87,454	2.8%	5.2%	2.3%
FTEs Per Adjusted Occupied Bed	8	7	8	8	7	8	-4.0%	-1.6%	2.5%
FTEs per 100 Adj Discharges	7	6	7	7	6	7	-6.6%	-1.5%	5.5%

Benchmarks-Vermont System Averages									
Salary per FTE - Non-MD	\$ 61,326	\$ 63,250	\$ 65,422	\$ 65,917	\$ 67,055	\$ 67,424	1.7%	2.3%	0.5%
Salary & Benefits per FTE - Non-MD	\$ 80,704	\$ 81,921	\$ 85,211	\$ 84,856	\$ 86,361	\$ 86,812	1.8%	2.3%	0.5%
FTEs Per Adjusted Occupied Bed	6	6	6	6	6	6	-0.7%	2.8%	3.6%
FTEs per 100 Adj Discharges	7	7	7	8	8	8	-1.1%	1.3%	2.4%

Observations: Overall utilization as measured by Adjusted Admissions is expected to increase moderately from FY2018 Budget to FY2019 Budget. Utilization decreases are expected in two categories: CT Scan, Radiology - Diagnostic and Physician Office Visits. The hospital's answer to question 12A in the narrative addresses this increase. Additional providers have been added to improve access to services. There is an increase in Salary & Benefits per FTE - Non-MD which is partially due to increased employee health insurance costs. NVRH's FTEs per Adjusted Occupied Bed is higher than the Vermont System Average.

Questions: NVRH's narrative describes increased staffing costs related to mental health patients and CMS requirements. Are these increased costs related to the increase from FY2018 Budget and Projections to FY2019 Budget in Salary per FTE - Non-MD and Salary & Benefits per FTE - Non-MD? Please describe factors leading to this increase.

Fiscal Year 2019 Budget Analysis **Northeastern VT Regional Hospital**

BALANCE SHEET	FY2015A	FY2016A	FY2017A	FY2018B	FY2018P	FY2019B
Cash & Investments	\$ 4,158,379	\$ 6,683,538	\$ 7,385,232	\$ 7,054,600	\$ 7,367,256	\$ 8,767,256
Risk Reserve for Fixed Reform Payments	-	-	-	-	-	-
Other Current Assets	11,541,424	11,364,240	10,945,679	11,559,700	13,663,435	12,810,974
Current Assets	15,699,803	18,047,778	18,330,911	18,614,300	21,030,691	21,578,230
Board Designated Assets	18,557,194	16,639,051	17,908,361	17,000,000	17,950,000	17,950,000
Net, Property, Plant And Equipment	21,512,875	21,091,013	21,321,344	27,500,000	23,000,000	26,300,000
Other Long-Term Assets	5,070,773	7,754,531	6,388,027	7,913,000	5,574,425	5,424,425
Assets	\$ 60,840,645	\$ 63,532,373	\$ 63,948,643	\$ 71,027,300	\$ 67,555,116	\$ 71,252,655
Current Liabilities	\$ 11,717,548	\$ 12,931,702	\$ 13,219,612	\$ 12,765,100	\$ 9,440,000	\$ 12,290,000
Long Term Liabilities	13,239,879	12,039,615	11,593,044	16,867,300	17,522,000	16,932,000
Other Noncurrent Liabilities	-	-	-	-	-	-
Fund Balance	35,883,218	38,561,056	39,135,987	41,394,900	40,593,116	42,030,655
Liabilities and Equities	\$ 60,840,645	\$ 63,532,373	\$ 63,948,643	\$ 71,027,300	\$ 67,555,116	\$ 71,252,655

Benchmarks-Hospital						
Days Cash on Hand	131.3	123.1	124.0	115.7	120.9	122.3
Long Term Debt to Capitalization	27.0%	23.8%	22.9%	29.0%	30.3%	28.7%
Debt Service Coverage Ratio	4.9	4.3	4.6	3.6	5.1	2.2
Benchmarks-Vermont System Averages						
Days Cash on Hand	178.5	183.3	193.6	167.3	178.2	173.4
Long Term Debt to Capitalization	27.6%	30.5%	29.0%	29.6%	26.7%	25.4%
Debt Service Coverage Ratio	3.7	5.0	3.9	3.7	3.7	3.7

Observations: Other Current Assets are projected to increase 18% or over \$2 million. The Fund Balance continues to increase.

Questions: What is causing the increase in Other Current Assets from FY2018 Budget to FY2019 Budget?

Fiscal Year 2019 Budget Analysis		Northeastern VT Regional Hospital							
CAPITAL BUDGET	2015A	FY2016A	FY2017A	FY2018B	FY2018P	FY2019B	2020 Plan	2021 Plan	2022 Plan
Non-Certificate of Need Capital Plans Total				\$ 6,200,600	\$ 6,200,600	\$ 3,791,287	\$ 3,868,967	\$ 2,207,106	\$ 2,577,015
Certificate of Need Capital Plans				\$ 3,100,000	\$ -	\$ 3,100,000	\$ -	\$ 2,000,000	\$ 4,250,000
Total Capital Purchases				\$ 9,300,600	\$ 6,200,600	\$ 6,891,287	\$ 3,868,967	\$ 4,207,106	\$ 6,827,015
Northeastern VT Regional Hospital									
Age of Plant	13.2	13.1	13.0	13.6	12.2	13.1			
Capital Expenditures to Depreciation	62.7%	119.6%	116.8%	205.4%	182.0%	109.9%			
Capital Cost % of Total Expense	4.4%	4.2%	4.2%	4.3%	4.6%	4.6%			
Benchmarks-Vermont System Averages									
Age of Plant	11.4	11.8	12.5	13.0	13.2	13.5	-	-	-
Capital Expenditures to Depreciation				116.6%	116.5%	145.7%	-	-	-
Capital Cost % of Total Expense				5.3%	5.3%	5.0%	-	-	-
<p>Observations: The hospital's capital budget of \$6.9 million includes the CON replacement/renovation of diagnostic imaging equipment (which was just approved by the GMCB in July). Other capital expenditures include replacement of surgical endoscopy equipment and upgrades in IT. Age of Plant is budgeted to return to pre 2018 levels, which is below the Vermont System Average. Future potential CONs include an Emergency Department renovation.</p>									