

Grace Cottage Hospital

Fiscal Year 2019 Budget Analysis

Report Date: 8/6/2018

QUESTIONS

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1. Have the hospital's projections for FY2018 changed?
2. Please describe the rationale for FY2019 Budget expectations, in light of FY2017 Actuals and FY2018 Projections.
3. It appears that one physician FTE has been eliminated; if so, what was the position, why was it eliminated, and have any services been affected as a result?
4. It appears that the trend in Acute Admissions is expected to continue. Please explain the factors contributing to that increase.
5. Please explain the hospital's strategy for increasing Days Cash on Hand.
6. Please describe how the hospital plans to address Age of Plant.
7. Asthma Medication Management is one of the measures in Vermont's All-Payer ACO Model Agreement. The Brattleboro health service area appears to have rates of Asthma Medication Management that are lower than state and national averages. Are there any specific efforts to improve care for people with asthma and chronic obstructive pulmonary disease at the hospital and its primary care practices? If so, please describe.
8. If not addressed in the narrative, please explain any factors contributing to changes in bad debt and free care, including policy changes if any.
9. 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.

Fiscal Year 2019 Budget Analysis **Grace Cottage Hospital**

INCOME STATEMENT	FY2015A	FY2016A	FY2017A	FY2018B	FY2018P	FY2019B	2018B - 2018P	2018B - 2019B	2018P - 2019B
							% Chg	% Chg	% Chg
Revenues									
Gross Patient Care Revenue	22,650,537	25,833,339	26,113,855	27,607,149	28,264,307	29,980,632	2.4%	8.6%	6.1%
Disproportionate Share Payments	0	0	0	0	0	0	#DIV/0!	#DIV/0!	#DIV/0!
Bad Debt	(525,606)	(406,558)	(842,397)	(748,260)	(427,511)	(516,506)	-42.9%	-31.0%	20.8%
Free Care	(196,472)	(126,612)	(110,259)	(101,466)	(184,712)	(181,583)	82.0%	79.0%	-1.7%
Deductions from Revenue	(5,889,693)	(8,058,460)	(7,899,991)	(8,108,349)	(9,388,387)	(9,989,962)	15.8%	23.2%	6.4%
Net Patient Care Revenue	16,038,766	17,241,709	17,261,208	18,649,074	18,263,697	19,292,581	-2.1%	3.5%	5.6%
Fixed Prospective Payments & Reserves	0	0	0	0	0	0	#DIV/0!	#DIV/0!	#DIV/0!
Net Patient Care Revenue & Fixed Payments & Reserves	16,038,766	17,241,709	17,261,208	18,649,074	18,263,697	19,292,581	-2.1%	3.5%	5.6%
Other Operating Revenue	920,058	871,069	1,073,643	1,247,133	1,088,776	1,188,862	-12.7%	-4.7%	9.2%
Total Operating Revenue	16,958,824	18,112,778	18,334,851	19,896,207	19,352,473	20,481,443	-2.7%	2.9%	5.8%
Expenses									
Salaries Non MD	7,907,721	8,455,100	8,838,636	9,377,560	9,210,017	9,605,266	-1.8%	2.4%	4.3%
Fringe Benefits Non MD	2,326,337	2,644,288	2,558,790	3,084,330	2,713,266	3,091,037	-12.0%	0.2%	13.9%
Fringe Benefits MD	345,204	427,177	427,267	477,745	364,103	387,960	-23.8%	-18.8%	6.6%
Physician Fees, Salaries, Contracts	2,040,342	2,276,960	2,235,272	2,145,185	1,922,036	2,056,963	-10.4%	-4.1%	7.0%
Health Care Provider Tax	536,205	621,491	648,299	659,052	620,394	640,758	-5.9%	-2.8%	3.3%
Depreciation & Amortization	1,134,712	705,748	599,378	644,540	584,568	675,299	-9.3%	4.8%	15.5%
Interest - Long Term & Short Term	139,854	150,863	131,905	125,817	129,080	124,063	2.6%	-1.4%	-3.9%
Other Operating Expense	4,184,039	4,278,775	4,166,086	3,972,003	3,866,530	3,748,280	-2.7%	-5.6%	-3.1%
Total Operating Expense	18,614,414	19,560,402	19,605,633	20,486,232	19,409,994	20,329,626	-5.3%	-0.8%	4.7%
Net Operating Income (Loss)	(1,655,590)	(1,447,624)	(1,270,782)	(590,025)	(57,521)	151,817	-90.3%	-125.7%	-363.9%
Non-Operating Revenue	943,756	1,052,582	1,533,287	737,258	1,045,502	742,707	41.8%	0.7%	-29.0%
Excess (Deficit) of Rev Over Exp	(711,834)	(395,042)	262,505	147,233	987,981	894,524	571.0%	507.6%	-9.5%
Benchmarks-Hospital									
Operating Margin%	-9.8%	-8.0%	-6.9%	-3.0%	-0.3%	0.7%			
Total Margin %	-4.0%	-2.1%	1.3%	0.7%	4.8%	4.2%			
Cost per Adjusted Admission	7,514	7,367	7,262	8,212	6,831	6,968			
<p>OBSERVATIONS: Grace Cottage's 2018 projection shows the hospital is performing better than past budgets and actuals, but net operating income continues to show a loss. The FY2019 Budget shows an NPR increase of \$585,236 (3.5%) over the FY2018 Budget, and 5.6% over the FY2018 Projections. Grace Cottage states that the additional growth is based on current projections and their existing patient base. The narrative indicates that the hospital's budgeted overall rate/price increase of 3.2% would support achievement of a positive operating margin for the first time in several years.</p> <p>QUESTIONS: Please describe the rationale for FY2019 Budget expectations, in light of FY2017 Actuals and FY2018 Projections.</p>									

Fiscal Year 2019 Budget Analysis									Grace Cottage 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	\$27,607,149	\$28,264,307	\$29,980,632	2.4%	8.6%	6.1%				
	Contractual Allowances	(\$8,108,349)	(\$9,388,387)	(\$9,989,962)	15.8%	23.2%	6.4%				
	Bad Debt	(\$748,260)	(\$427,511)	(\$516,506)	-42.9%	-31.0%	20.8%				
	Free Care	(\$101,466)	(\$184,712)	(\$181,583)	82.0%	79.0%	-1.7%				
	Graduate Medical Education Payments	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!				
	Disproportionate Share Payments	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!				
	Net Payer Revenue	\$18,649,074	\$18,263,697	\$19,292,581	-2.1%	3.5%	5.6%				
	Fixed Prospective Payments & Reserves	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!				
Net Patient Care Rev & Fixed Payments & Reserves	\$18,649,074	\$18,263,697	\$19,292,581	-2.1%	3.5%	5.6%	\$282,474	\$361,033			
Commercial	Gross Patient Care Revenue	\$8,552,351	\$8,661,136	\$9,264,853	1.3%	8.3%	7.0%				
	Contractual Allowances	(\$2,691,681)	(\$2,827,142)	(\$2,993,540)	5.0%	11.2%	5.9%				
	Bad Debt	(\$748,260)	(\$427,511)	(\$516,506)	-42.9%	-31.0%	20.8%				
	Free Care	(\$101,466)	(\$184,712)	(\$181,583)	82.0%	79.0%	-1.7%				
	NPR	\$5,010,944	\$5,221,771	\$5,573,224	4.2%	11.2%	6.7%				
	Fixed Prospective Payment & Reserves	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!				
	Total Net Payer Revenue & Fixed Prospective Payment	\$5,010,944	\$5,221,771	\$5,573,224	4.2%	11.2%	6.7%	\$186,721	\$375,559		
	Medicaid	Gross Patient Care Revenue	\$4,045,060	\$3,893,766	\$4,146,671	-3.7%	2.5%	6.5%			
Contractual Allowances		(\$2,480,757)	(\$2,496,379)	(\$2,655,405)	0.6%	7.0%	6.4%				
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		\$1,564,303	\$1,397,387	\$1,491,266	-10.7%	-4.7%	6.7%				
Fixed Prospective Payment & Reserves		\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!				
Total Net Payer Revenue & Fixed Prospective Payment		\$1,564,303	\$1,397,387	\$1,491,266	-10.7%	-4.7%	6.7%	\$0	(\$73,037)		
Medicare	Gross Patient Care Revenue	\$15,009,738	\$15,709,405	\$16,569,108	4.7%	10.4%	5.5%				
	Contractual Allowances	(\$2,935,911)	(\$4,064,866)	(\$4,341,017)	38.5%	47.9%	6.8%				
	Bad Debt	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!				
	Free Care	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!				
	NPR	\$12,073,827	\$11,644,539	\$12,228,091	-3.6%	1.3%	5.0%				
	Fixed Prospective Payment & Reserves	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!				
	Total Net Payer Revenue & Fixed Prospective Payment	\$12,073,827	\$11,644,539	\$12,228,091	-3.6%	1.3%	5.0%	\$95,753	\$58,511		
	Disproportionate Share Payments	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!		\$0		
NPR to Gross Commercial (no dsh)	58.6%	60.3%	60.2%								
NPR to Gross Medicaid (no dsh)	38.7%	35.9%	36.0%								
NPR to Gross Medicare (no dsh)	80.4%	74.1%	73.8%								
NPR to Gross All (no dsh)	67.6%	64.6%	64.4%								
OBSERVATIONS: Grace Cottage's NPR increase from the submitted rate/price increase is \$282,474, mainly from Commercial payers, with the balance from Medicare. The balance of the NPR increase is due to utilization changes. Commercial reimbursements are expected to increase for FY2018 Projections and FY2019 Budget, but Medicare and Medicaid are expected to decline. Grace Cottage does not receive a Disproportional Share Payment.											

Grace Cottage 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%
Grace Cottage Hospital Approved Rate	5.00%	5.00%	5.00%	5.00%	
Grace Cottage Hospital Submitted Rate	5.00%	5.00%	5.00%	5.00%	3.20%

Hospital Inpatient Gross Revenue	3.2%
Hospital Outpatient Gross Revenue	3.2%
Physician Outpatient Gross Revenue	3.2%
Chronic/SNF Gross Revenue	0.0%
Swing Gross Revenue	3.2%

Net Patient Revenue Change Due to Rate Request		
	Commercial	\$ 186,721
	Medicaid	\$ -
	Medicare	\$ 95,753
	Disproportionate Share	\$ -
	Total Change Due to Rate Request	\$ 282,474

Value of 1% Rate - Calculated by GMCB	\$ 88,273
Value of 1% Rate - Calculated by Grace Cottage	\$ 88,273
Variance	\$ 0

Grace Cottage has requested a rate/price increase of 3.20%.

The 3.20% increase will result in increased NPR of \$282,474. The rate/price request is built to achieve a positive Operating Margin.

For Grace Cottage, every 1% increase in rate is worth approximately \$88,273 in net patient revenue. This estimate calculated by GMCB staff matches the estimated value of a 1% increase calculated by the hospital.

Fiscal Year 2019 Budget Analysis	Grace Cottage Hospital					
	DASHBOARD	FY2015A	FY2016A	FY2017A	FY2018B	FY2018P
Net Patient Care Revenue	16,038,766	17,241,709	17,261,208	18,649,074	18,263,697	19,292,581
Net Patient Care Rev & Fixed Payments & Reserves	16,038,766	17,241,709	17,261,208	18,649,074	18,263,697	19,292,581
NPR & FPP % Variance		7.5%	0.1%	8.0%	-2.1%	5.6%
Three Year NPR & FPP CAGR* (FY16A - FY19B)						3.8%
Operating Expense	18,614,414	19,560,402	19,605,633	20,486,232	19,409,994	20,329,626
Oper Exp % Variance		5.1%	0.2%	4.5%	-5.3%	4.7%
Three Year Oper. Exp. CAGR* (FY16A - FY19B)						1.3%
Revenue						
Operating Margin %	-9.8%	-8.0%	-6.9%	-3.0%	-0.3%	0.7%
Total Margin %	-4.0%	-2.1%	1.3%	0.7%	4.8%	4.2%
Bad Debt %	2.3%	1.6%	3.2%	2.7%	1.5%	1.7%
Free Care %	0.9%	0.5%	0.4%	0.4%	0.7%	0.6%
Cost						
Cost per Adjusted Admission	7,514	7,367	7,262	8,212	6,831	6,968
Overhead Exp. as a % of Total Operating Exp.	34.3%	32.2%	31.9%	32.8%	33.6%	34.2%
Productivity & Utilization						
Acute Admissions	130	131	137	120	149	149
Adjusted Admissions	2,477	2,655	2,700	2,495	2,841	2,918
Average Length of Stay	10	11	11	11	11	11
FTEs Per Adjusted Occupied Bed	6	7	6	7	7	7
FTEs per 100 Adj Discharges	5	5	5	6	5	5
Cash						
Days Cash on Hand	76.1	78.2	85.8	75.8	92.9	92.5
Current Ratio	1.3	1.0	0.9	1.1	0.9	0.9
Capital						
Age of Plant	10.4	17.8	22.0	21.4	23.5	21.4
Long Term Debt to Capitalization	29.0%	25.8%	20.8%	29.9%	14.1%	8.8%
Debt Service Coverage Ratio	-1.26	-1.24	-1.14	0.23	0.33	0.49
*CAGR = Compounded Annual Growth Rate						

Fiscal Year 2019 Budget Analysis **Grace Cottage Hospital**

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

UTILIZATION									
Adjusted Admissions	2,477	2,655	2,700	2,495	2,841	2,918	13.9%	17.0%	2.7%
Acute Admissions	130	131	137	120	149	149	24.2%	24.2%	0.0%
Acute Average Length Of Stay	3.1	2.7	2.9	3.1	2.5	2.5	-18.6%	-18.6%	0.0%
All Operating Room Procedure	0	0	0	0	0	0	#DIV/0!	#DIV/0!	#DIV/0!
Tests	56,945	58,289	53,263	54,940	50,587	52,810	-7.9%	-3.9%	4.4%
Emergency Room Visits	2,736	2,892	2,869	2,712	2,933	3,080	8.1%	13.6%	5.0%
Cat Scan, Radiology - Diagnostic	4,012	4,144	4,116	4,332	4,340	4,548	0.2%	5.0%	4.8%
Exams	0	0	0	0	0	0	#DIV/0!	#DIV/0!	#DIV/0!
Provider Work RVU	0	0	0	0	0	0	#DIV/0!	#DIV/0!	#DIV/0!
Physician Office Visits	17,948	19,397	20,256	20,691	19,397	19,831	-6.3%	-4.2%	2.2%
Visits	0	0	0	0	0	0	#DIV/0!	#DIV/0!	#DIV/0!

STAFFING									
FT Equivalents (Heads)	131	136	138	142	138	139	(5)	(3)	2
Travelers, Travelers MD	4	4	4	0	3	0	3	0	(3)
Residents & Fellows	0	0	0	0	0	0	0	0	0
MLPs	0	0	0	0	0	0	0	0	0
Physician FTEs	9	10	9	9	8	8	(1)	(1)	0
Total FTEs	144	149	151	151	148	148	(3)	(3)	(1)

Benchmarks-Hospital									
Salary per FTE - Non-MD	\$ 60,148	\$ 62,147	\$ 64,071	\$ 65,997	\$ 66,967	\$ 68,919	1.5%	4.4%	2.9%
Salary & Benefits per FTE - Non-MD	\$ 77,843	\$ 81,583	\$ 82,620	\$ 87,704	\$ 86,696	\$ 91,098	-1.1%	3.9%	5.1%
FTEs Per Adjusted Occupied Bed	6	7	6	7	7	7	4.4%	3.0%	-1.3%
FTEs per 100 Adj Discharges	5	5	5	6	5	5	-15.0%	-16.1%	-1.3%

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: It appears Physician FTEs are down by one physician. Acute Admissions are up by 24.2%. Salaries & Benefits are increasing from FY2018 through FY2019. Productivity is moving unfavorably for some measures and steady for the other.

QUESTIONS: Please explain if a physician FTE has been eliminated, and if so, what was the position, why was it eliminated, and have any services been affected as a result? It appears that the trend in Acute Admissions is expected to continue. Please explain the factors contributing to that increase.

Fiscal Year 2019 Budget Analysis		Grace Cottage Hospital					
BALANCE SHEET	FY2015A	FY2016A	FY2017A	FY2018B	FY2018P	FY2019B	
Cash & Investments	\$ 195,899	\$ 237,043	\$ 155,417	\$ 359,871	\$ 269,138	\$ 277,212	
Risk Reserve for Fixed Reform Payments	-	-	-	-	-	-	
Other Current Assets	4,165,169	4,054,996	3,902,263	3,541,382	3,802,769	3,921,007	
Current Assets	4,361,068	4,292,039	4,057,680	3,901,253	4,071,907	4,198,219	
Board Designated Assets	3,537,806	3,887,683	4,392,760	3,833,245	4,598,406	4,775,297	
Net, Property, Plant And Equipment	3,658,528	3,453,925	3,395,151	3,569,593	3,476,783	3,916,476	
Other Long-Term Assets	-	-	-	-	-	-	
Assets	\$ 11,557,402	\$ 11,633,647	\$ 11,845,591	\$ 11,304,091	\$ 12,147,096	\$ 12,889,992	
Current Liabilities	\$ 3,352,552	\$ 4,397,878	\$ 4,688,146	\$ 3,661,354	\$ 4,349,657	\$ 4,514,281	
Long Term Liabilities	2,282,126	1,719,623	1,380,284	2,232,297	1,032,297	716,045	
Other Noncurrent Liabilities	-	-	-	-	-	-	
Fund Balance	5,922,724	5,516,146	5,777,161	5,410,440	6,765,142	7,659,666	
Liabilities and Equities	\$ 11,557,402	\$ 11,633,647	\$ 11,845,591	\$ 11,304,091	\$ 12,147,096	\$ 12,889,992	
Benchmarks-Hospital							
Days Cash on Hand	76.1	78.2	85.8	75.8	92.9	92.5	
Long Term Debt to Capitalization	29.0%	25.8%	20.8%	29.9%	14.1%	8.8%	
Debt Service Coverage Ratio	(1.3)	(1.2)	(1.1)	0.2	0.3	0.5	
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	
<p>OBSERVATIONS: Days Cash on Hand is expected to improve but is below the 25th percentile for all Vermont hospitals. The budget for FY2019's Long Term Liabilities is significantly less than both the FY2018 Projections and FY2019 Budget. The fund balance is steadily increasing from FY2017.</p> <p>QUESTIONS: Please explain the strategy for increasing Days Cash on Hand. Please explain the factors that contribute to Long Term Liabilities being less than FY2018 Projections and FY2019 Budget.</p>							

Fiscal Year 2019 Budget Analysis		Grace Cottage Hospital								
CAPITAL BUDGET	2015A	FY2016A	FY2017A	FY2018B	FY2018P	FY2019B	2020 Plan	2021 Plan	2022 Plan	
Non-Certificate of Need Capital Plans Total				\$ 1,073,916	\$ 666,200	\$ 1,114,992	\$ 914,375	\$ 2,713,920	\$ 161,000	
Certificate of Need Capital Plans				\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Total Capital Purchases				\$ 1,073,916	\$ 666,200	\$ 1,114,992	\$ 914,375	\$ 2,713,920	\$ 161,000	
Grace Cottage Hospital										
Age of Plant	10.4	17.8	22.0	21.4	23.5	21.4				
Capital Expenditures to Depreciation	83.5%	75.7%	137.6%	166.6%	114.0%	165.1%				
Capital Cost % of Total Expense	6.8%	4.4%	3.7%	3.8%	3.7%	3.9%				
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 narrative indicates there are no capital projects planned. Grace Cottage's Age of Plant is higher than that of the Vermont System Average. Capital Cost as a % of Total Expense is favorable compared to the Vermont System Average.</p> <p>QUESTIONS: Please describe how the hospital plans to address Age of Plant.</p>										