Rutland Regional Medical Center
An Affiliate of Rutland Regional Health Services

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Ms. Pat Jones, Director of Health System Finances
Green Mountain Care Board
89 Main Street
Montpelier, VT 05620-3101

August 3, 2018

Dear Ms. Jones:

In response to your July 26th correspondence, below please find responses to your observations of our Fiscal 2019 Hospital Budget.

If you have additional questions or would like to discuss the content in further detail, please let me know.

Judi K. Fox

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CFO
Attachments

Cc: Claudio Fort

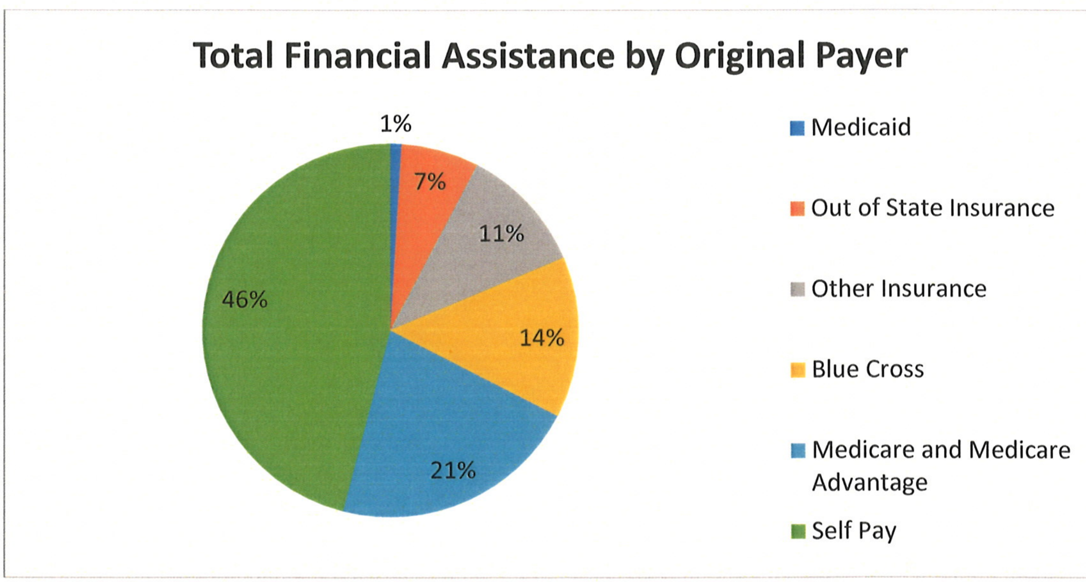
1. **Have the hospital's projections for Fiscal 2018 changed?**

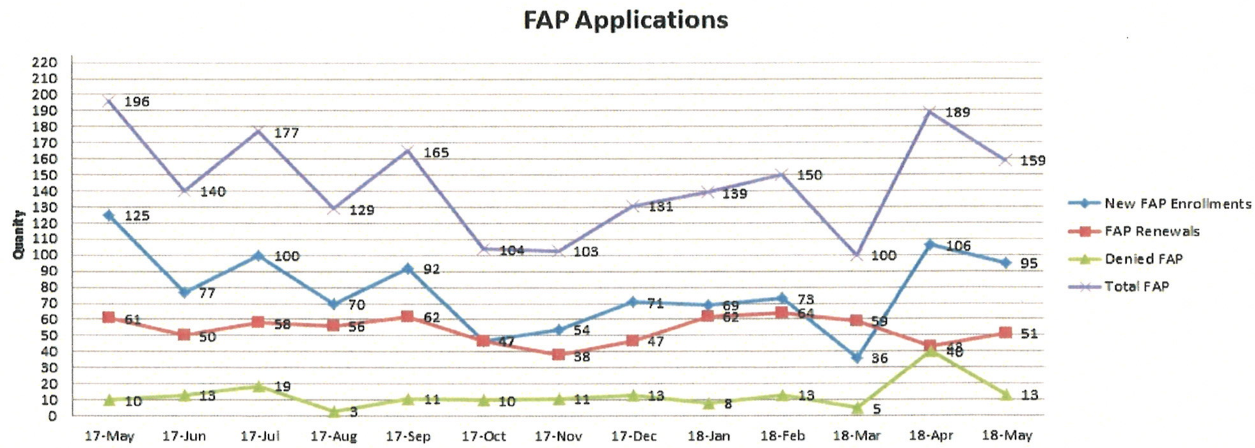
   No, when comparing Fiscal 2018 actual results as of June 30th we are consistent with the Projection that was submitted.

	2018 Projection	June YTD (annualized)	Variance
Net Patient Service Revenue	$ 253,620,932	$ 255,251,119	$ 1,630,187
Total Revenue	$ 266,984,326	$ 269,265,399	$ 2,281,073
Total Expenses	$ 264,935,085	$ 267,291,360	$ 2,356,275
Profit from Operations	$ 2,049,241	$ 1,974,039	$ (75,202)
Other Income	$ 6,443,603	$ 9,114,525	$ 2,670,922
Total Income	$ 8,492,844	$ 11,088,564	$ 2,595,720
Operating Margin	0.8%	0.8%	$ (0)

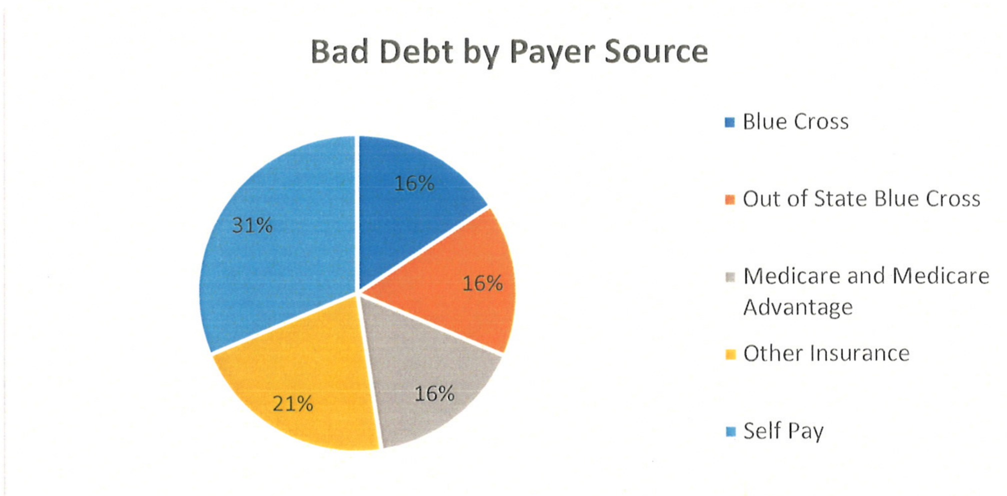
2. **Bad Debt is increasing while Free Care is decreasing; please explain the factors contributing to those changes, including policy changes if any.**

   Our free care is consistent from 2018 and 2019. Of the Free care provided, 46% represents free care provided to patients without insurance, 22% of Free care relates to patients enrolled in Medicare and Medicaid programs and the remaining 32% is a result of balances after commercial insurance. The Free Care Application graph illustrates the number of applications that are processed each month.





Bad Debt is increasing due to high deductible plans. These plans generally have subscribers who do not qualify for free care programs, but who are not able to cover the high deductible of their plan. Based on 2018 bad debt activity, 69% of bad debt is the result of balances on encounters with insurance, while only 31% relate to patients without any insurance.



3. **Please provide more specifically about what is included in Other Operating Expense for Fiscal 2017 Actuals, Fiscal 2018 Budget and Projections and Fiscal 2019 Budget and explain the variation from year to year.**

The variability of Other Operating Expense relates primarily to increased utilization of temporary staff. In 2018, the increased need for temporary staff was most prevalent in our Inpatient Nursing units. In 2019, we were able to reduce the expense associated with temporary staff as the result of a Registered Nurse Hiring Program. The intent of this program is to hire 72 RNs to reduce the need for travelers and plan for anticipated retirements. As of June 30th, the organization has hired 57 RNs (18 experienced & 39 new grads)

2019 Traveler Projections

	5th	SCU	PCU / ICU	ED	OR	Womens Children	Endo	ACU/PACU	Psych	Total
Current Travelers	6	6	6	5	5	2	0	0	7	37
Additional Needs:										
Estimated Retirements	5	5	10	5	4	3	1	0	2	35
Commited New Hires										
Experienced New Hires	3	1	3	4	2	4	1	0	0	18
New RN Grads	8	8	13	5	0	1	0	0	4	39
Net Unfilled Traveler Replacements	0	2	0	1	7	0	0	0	5	15

	2018 Budget	2018 Projection	2019 Budget
Temporary Staff	$ 1,371,000	$ 6,015,000	$ 986,000
All Other Expenses	$ 80,919,825	$ 83,625,927	$ 85,409,202
Total	$ 82,290,825	$ 89,640,927	$ 86,395,202

The increase related to all other expenses include pharmaceutical costs totaling $2.6 million and Information Technology services, including cyber security, totaling $1.6 million.

4. **Please explain the calculation of the estimated value of a 1% rate/price increase; the hospital's estimate varies from the GMCB staff estimate.**

   We calculate the change in net patient service revenue from the 2019 base budget prior to a rate increase and after a rate increase. This increase in net revenue is then divided by the percentage of rate increase to determine the value of a 1% increase in Gross revenue. There is significant detail in the calculation. We believe these nuances contribute to the $82,729 variance between the RRMC calculation and that of the GMCB staff.

5. **Please explain whether the CoNs approved in the past year and/or other factors account for the increase in the Long-Term Debt to Capitalization.**

   Yes, the increase in our Long-Term Debt to Capitalization ratio is directly impacted by $21.6 million in additional long-term debt relating to the Medical Office Building. The CoN for the Medical Office Building was approved in January 2018 with an estimated project cost of $23.7 million. RRMC intends to contribute $2,191,500 in equity and finance all remaining costs. We are currently working with the USDA to secure funding through the Community Facilities Direct Loan program.

6. **Please specify the positions and discretionary spending that are eliminated.**

   Based on a review of productivity, program decisions were made that balanced access to care with cost efficiencies. As a result service and staffing changes have been made that relate to Outpatient Rehabilitation and off-site Laboratory draw stations.

Program Reductions

Reduction in Patient Access Outpatient Rehab		
Rehabilitative Services Net Revenue	$	205,700
Salary Reductions Reduction of 3.5 FTEs Physical Therapist Speech Pathologist	$	256,200
Payroll taxes & Fringe benefits	$	74,300
Contract Staff	$	123,500
Staff Travel & Education	$	8,100

Change in care delivery model, focusing on transitional IP care and care that is not provided at other community providers.

Closure of Lab Draw Stations 69 Allen and Commons		
Net Revenue Reductions	$	0
Salary Reductions Reduction of 2.0 FTEs Phlebotomist	$	66,700
Occupancy Costs	$	16,900

Volume in each draw station does not support costs. Capacity at RRMC for additional patient volume.

FTEs were managed throughout the process. When we were required to hire new staff to meet operational or compliance standards we also looked for efficiencies where we could reduce staff. Overall, Budget 2019 includes a net increase of 15.1 FTEs. This is the result of adding 37.3 positions and eliminating 22.2 positions.

Savings were also achieved through changes in policy supporting travel, education and catering services.

New/Reduced Positions By Service

NEW POSITIONS	
Inpatient	5.6
Ancillary Services	12.3
Other Clinical	2.4
Support	7.8
Community Investment	9.2
Total New Positions	37.3

REDUCTIONS	
Ancillary/Clinic Services	7.5
Other Clinical	3.5
Support	11.2
Total Reductions	22.2

To manage limited net revenue growth and still provide competitive salaries, considerations for new positions must be offset by position reductions.

7. **Please complete the most recent table in Appendix V of the FY2019 hospital budget guidance and reporting requirements for proposed 2019 Health Care Reform Investments. Provide information about APM Quality Measures and summarize the evidence and/or rationale for each investment; identify Population Health Goals impacted by the last four investments.**

   Please see Attachment A.

8. **Please complete the table that has been provided to clarify accounting of ACO-related revenue and expenses.**

   Please see Attachment B

Based on updated information we are revising our response to question 2 of the Submitted Narrative. This revision is a result of updated cost of care information relating to the 11,000 Medicaid Covered Lives. The update does not impact NPR and FPP revenue, rather only re-classifies revenue and reimbursement.

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:*

   A. *Has the hospital signed a contract with OneCare Vermont? If yes, for which payers? If not, explain (and skip B. through E., below.)*

   Rutland Regional Medical Center has not signed a contract with OneCare Vermont for 2018. We have requested to be included in the data modeling for all programs and will make a final decision before we formally present our budget in August. Our current assumption is that we would initially join OneCare Vermont for Medicaid only. The assumption is based on 11,000 attributed lives and a total cost of care for all hospital services of $33.5 million. The covered lives and cost of care assumptions are based on a limited set of data. This information will be updated once we receive the OneCare data.

   B. *What is the amount of FPP the hospital expects to receive in FY 2019 based on estimated attributed lives?*

   Rutland Regional Medical Center does not employ primary care physicians and therefore any funds paid to primary care for population health, care coordination or quality, are withheld from payments that we receive. Based on a total estimated cost of $33.5 million, Rutland Regional Medical Center expects to receive $17.6 million, before withholds. We calculate the aggregated withholds to be $682,000 and the Accountable Care Organization administrative fee of $330,000. Given the withholds and administrative fee we expect our fixed payment to be $16.9 million.

   Refer to Appendix A

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

   Based on the limited data modeling, we calculate the maximum risk/reward to be $1.0 million. This is based on the current risk corridor of 100% of a 3% corridor.

   When you include the administrative cost of OneCare and the primary care payment enhancements, our total downside risk is $2.0 million, and we have no upside reward as a result of the Primary Care payment enhancement being more than the maximum reward share.

OneCare Vermont
Rutland HSA Financial Modeling

		Member Base Assumptions					Risk and Reward Sharing			Primary Care Enhancement			Complex Care Coordination			Quality Incentives					
Rutland" HSA	Year and Data Source	Lives	Total Cost Of Care	FC Stability	Member Months	PMPM	Max Risk	Corridor	Sharing	Lives	PMPM	Total Value	Lives	PMPM	Total Value	Lives	Quality Incentives	OneCare Operations	Total Maximum Upside	Total Maximum Downside	Risk to Reward
Medicaid	2018	11,000	$ 33,537,516	95.2%	125,605	$267.01	$ 1,006,125	3.0%	100%	11,000	$ 1.63	$ 214,500	16%	$ 15	$ 301,451	11,000	$ 167,000	$ 330,000	$ (6,826)	$ (2,019,077)	(295.81)

Medicaid Costs - per RRMC Data Warehouse	$ 52,795,221
Net to Gross	33.4%
Net Revenue	$ 17,651,324
Add: Non Hospital Revenue	90.0%
All other spend	$ 15,886,192
Total spend	$ 33,537,516

			$ 16,969,373
Per March 2018 Financial Statements:			
Revenue:			
IP Medicaid	$ 17,891,218	37%	$ 6,347,905
OP Medicaid	$ 22,232,243	46%	$ 7,888,125
Pro Fee Medicaid	$ 7,703,773	16%	$ 2,733,342
	$ 47,827,234		
Contractual Allowance:			$ 16,969,373
IP Medicaid	$ 9,723,628		
OP Medicaid	$ 16,322,086		
Pro Fee Medicaid	$ 5,791,171		
	$ 31,836,885		
Overall Net to Gross	33.4%		