Rutland Regional Medical Center

Fiscal Year 2017 Budget Analysis

Report Date: **8/10/2016**

Rutland Regional Medical Center

CEO: Tom Huebner | **CFO: Judi Fox** | **Treasurer: Ed Ogorzalek**

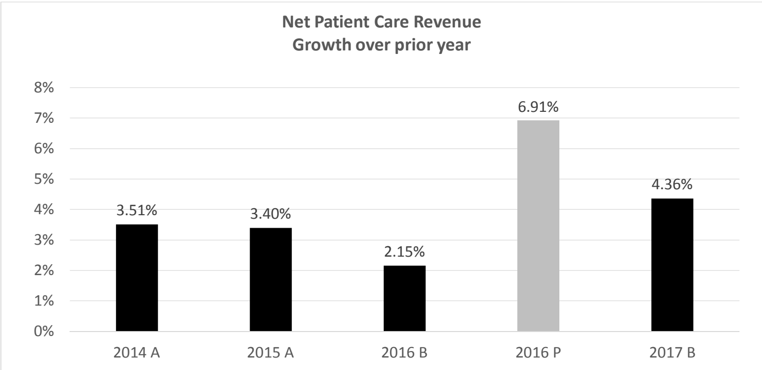
SUMMARY OF BUDGET

	2015 A	2016 B	2016 P	2017 B	B16-B17 Change $	B16-B17 Change %	B16-B17 Change $ All Hospitals	B16-B17 Change % All Hospitals
							-	-
Gross Patient Care Revenue	$ 493,394,512	$ 510,432,125	$ 514,799,410	$ 500,916,338	$ (9,515,787)	-1.9%	$ 134,233,796	2.7%
Net Patient Care Revenue	**$ 228,328,637**	**$ 233,248,162**	**$ 244,117,555**	**$ 243,415,448**	**10,167,286**	**4.36%**	**114,454,070**	**5.0%**
Other Operating Revenue	$ 9,275,938	$ 9,938,846	$ 9,437,234	$ 11,017,731	1,078,885	10.9%	6,477,684	4.7%
Total Operating Revenue	**$ 237,604,575**	**$ 243,187,008**	**$ 253,554,789**	**$ 254,433,179**	**$ 11,246,171**	**4.6%**	**$ 120,931,754**	**4.9%**
Operating Expense	**$ 233,196,542**	**$ 237,327,054**	**$ 242,230,707**	**$ 248,328,292**	**$ 11,001,238**	**4.6%**	**$ 119,502,747**	**5.0%**
Net Operating Income	**$ 4,408,033**	**$ 5,859,954**	**$ 11,324,082**	**$ 6,104,887**	**$ 244,933**	**4.2%**	**$ 1,429,007**	**2.1%**
Non Operating Revenue	**$ (492,377)**	**$ 5,973,111**	**$ 3,615,606**	**$ 7,136,913**	**$ 1,163,802**	**19.5%**	**$ 4,835,590**	**15.7%**
Excess (Deficit) of Rev over Exp	**$ 3,915,656**	**$ 11,833,065**	**$ 14,939,688**	**$ 13,241,800**	**$ 1,408,735**	**11.9%**	**$ 6,264,597**	**6.2%**
Operating Margin %	**1.9%**	**2.4%**	**4.5%**	**2.4%**				
Total Margin %	**1.7%**	**4.7%**	**5.8%**	**5.1%**				

The hospital has prepared a budget with a 4.36% increase in net patient revenues (NPR). The increase higher than 3% is related to physician transfers and increased market share as outlined in a letter to us on August 1, 2016 (attached). The budget also includes 0.4% for health care reform activities. The operating surplus is budgeted to remain at 2016 levels.
The hospital is also submitting a 5.1% rate reduction, which includes the rate reduction implemented by the hospital in May 2016.

See page 3 & 4 for more detail and attached letter at the end of the report.

Note: The 2016 Budget and Projected increase is measured from Actual 2015.



Rutland Regional Medical Center

RATE AND NET PATIENT REVENUE INCREASE

Rate is the average change in price for services provided.

	2013 Approved	2014 Approved	2015 Approved	2016 Approved	2017
Weighted Average rate for all hospitals	7.9%	5.2%	6.8%	4.4%	2.2%
Rutland Regional Medical Center Rate Request	10.3%	4.8%	8.4%	3.7%	-5.1%
Hospital Inpatient					-5.5%
Hospital Outpatient					-6.2%
Outpatient Physician					-0.3%
Chronic/SNF					0.0%
Swing					0.0%
Other					0.0%

The 5.1% rate decrease is the effect of the May 2016 rate decrease for FY 2016 AND a budgeted decrease scheduled this year for FY 2017. The May decrease was valued at 3.7% and the decrease for FY 2017 is valued at 1.2%. The hospital will establish final pricing after the budget is approved.

The rate decrease will lower net patient revenues by ($7.2 million). This is offset by increases of $17.4 million that are noted below. The hospital will address these changes at the hearing. The higher utilization, physician transfers, increased market share utilization, higher disproportionate share and other reimbursement changes all influence the NPR changes budgeted.

Net Patient Revenue change	**2016 Approved**	**2017 Submitted**	**B16-B17 Change**	**B16-B17 Change**	
NPR changes due to:	$ 233,248,162	$ 243,415,442	$ 10,167,280	4.36%	
Commercial Ask Negotiations			$ -		
Rate request			$ (7,195,518)	-5.1%	**Rate to be requested from commercial insurers**
Utilization			$ 3,297,821	Largely inpatient volume, est 6 per day. Very little additional psychiatric care.	
Market share increases			$ 2,517,790	**Related to request for market share adjustment (see attached)**	
Physician Acquisition or reduction			$ 2,372,983	**Orthopedics (Dr. Henley) & Neurology acquisitions of existing practice.**	
Free care			$ 2,057,759	**The same relative share is budgeted as projected 2016.**	
Bad debt			$ 1,710,239	The same relative share is budgeted as projected 2016.	
Dispro share change			$ 1,555,724	**Change as determined by DVHA**	
Other NPR changes			$ -		
Changes experienced in projected 2016			$ 3,934,692	Reconciling changes in payers experienced in projected 2016 vs. budget.	
Other NPR changes			$ (1,034,210)	Reimbursement changes - medicare increase; medicaid provider billing lower; commercial contracts lower.	
Health care reform			$ 950,000	Funds to be allocated to health care reform activities.	
Total NPR changes			$ 10,167,280		

Rutland Regional Medical Center

NET PAYER REVENUE CHANGE		FY2016	Projection FY2016	FY2017	B16-B17 $Change	B16-B17 % change	NPR From Rate	NPR From All Other
All Payers	**Gross Revenue**	**$510,432,125**	**$514,799,410**	**$500,916,338**	($9,515,787)	-1.9%		
	Allowances	($267,388,301)	($264,412,554)	($253,028,950)	$14,359,351	-5.4%		
	Bad Debt	($8,337,141)	($6,804,114)	($6,626,902)	$1,710,239	-20.5%		
	Free Care	($5,627,667)	($3,665,372)	($3,569,908)	$2,057,759	-36.6%		
	Disproportionate Share Payments	$4,169,146	$4,200,185	$5,724,870	$1,555,724	37.3%		
	Graduate Medical Education Paymen	$0	$0	$0	$0	0.0%		
	Net Payer Revenue	**$233,248,162**	**$244,117,555**	**$243,415,448**	**$10,167,286**	4.4%	**-$7,195,518**	**$17,362,804**
Commercial	**Gross Revenue**	$169,687,497	$166,042,336	$161,499,254	($8,188,243)	-4.8%		
	Allowances	($31,435,635)	($27,501,544)	($25,126,621)	$6,309,014	-20.1%		
	Bad Debt	$0	$0	$0	$0	0.0%		
	Free Care	$0	$0	$0	$0	0.0%		
	Disproportionate Share Payments	$0	$0	$0	$0	0.0%		
	Graduate Medical Education Paymen	$0	$0	$0	$0	0.0%		
	Net Payer Revenue	**$138,251,862**	**$138,540,792**	**$136,372,633**	**($1,879,229)**	-1.4%	**-$7,195,518**	**$5,316,289**
Medicaid	**Gross Revenue**	$100,040,051	$99,144,982	$96,650,618	($3,389,433)	-3.4%		
	Allowances	($64,691,734)	($69,554,029)	($68,402,245)	($3,710,511)	5.7%		
	Bad Debt	$0	$0	$0	$0	0.0%		
	Free Care	$0	$0	$0	$0	0.0%		
	Disproportionate Share Payments	$4,169,146	$4,200,185	$5,724,870	$1,555,724	37.3%		
	Graduate Medical Education Paymen	$0	$0	$0	$0	0.0%		
	Net Payer Revenue	**$39,517,463**	**$33,791,138**	**$33,973,243**	**($5,544,220)**	-14.0%	**$0**	**-$5,544,220**
Medicare	**Gross Revenue**	$240,704,577	$249,612,092	$242,766,466	$2,061,889	0.9%		
	Allowances	($171,260,932)	($167,356,981)	($159,500,084)	$11,760,848	-6.9%		
	Bad Debt	$0	$0	$0	$0	0.0%		
	Free Care	$0	$0	$0	$0	0.0%		
	Disproportionate Share Payments	$0	$0	$0	$0	0.0%		
	Graduate Medical Education Paymen	$0	$0	$0	$0	0.0%		
	Net Payer Revenue	**$69,443,645**	**$82,255,111**	**$83,266,382**	**$13,822,737**	19.9%	**$0**	**$13,822,737**
Bad Debt/Free C	**Gross Revenue**				$0	0.0%		
	Allowances				$0	0.0%		
	Bad Debt	($8,337,141)	($6,804,114)	($6,626,902)	$1,710,239	-20.5%		
	Free Care	($5,627,667)	($3,665,372)	($3,569,908)	$2,057,759	-36.6%		
	Disproportionate Share Payments	$0	$0	$0	$0	0.0%		
	Graduate Medical Education Paymen	$0	$0	$0	$0	0.0%		
	Net Payer Revenue	**($13,964,808)**	**($10,469,486)**	**($10,196,810)**	**$3,767,998**	-27.0%	**$0**	**$3,767,998**

This schedule shows the NPR increase by each major payer, including those receiving care as bad debt or free care. The schedule identifies the NPR increase related to rates separate from all other increases.

The Commercial revenues reflect the planned rate decrease dollars for this year ('17) combined with the rate reduction from May 2016.

The increase from other sources is related to market share increase, utilization, and physician transfers.

The hospital will NOT receive any new funds. They expect to see lower reimbursement for certain IP /OP services. Over $1.5 million is related to provider based billing changes.

The hospital saw utilization changes and higher reimbursement during projected 2016 and expect it to continue into 2017.

The hospital will explain the change in NPR for each payer as part of its budget presentation, including bad debt/free care changes.

Page 3 describes the 2017 NPR increase by major operational changes (rates, utilization, etc).

ANALYSIS AND QUESTIONS

1) The hospital's net patient revenues (NPR) are increasing 4.36% over 2016 budget. The hospital identifies that over 1% of this increase is primarily related to two physician transfers and a market share increase (see attached letter sent 8/1/2016) and another 0.4% is related to health care reform.

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2) Physician acquisitions are $2.4 million of the $10.2 million increase. These are orthopedics and neurology services and includes 5 new physician FTEs that occurred in FY 2016.

a) How does the hospital determine the appropriate physician need for the service area?

b) The market share increase is valued at about $2.5 million and is in addition to the acquisitions above. The attached letter describes the analysis used to explain the market share increase. Discuss the concept and the approach the hospital is using to evaluate and measure market share change.

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c) Explain your NPR changes at the budget hearing using the payer schedule (page 4) provided in the staff's analysis. The GMCB is interested in understanding the changes occurring from budget to budget by payer.

3) The hospital is submitting a 5.1% rate decrease. This rate change, which includes the May 2016 reduction announced to the GMCB in April 2016, will result in a $7.2 million reduction in commercial revenues. The hospital has confirmed that the schedule below is materially accurate:

Rate chg (price)	eff date	gross rev annual impact	net rev annual impact
3.7%	5/1/2016	$ 19,655,136	$ 5,317,266
1.2%	10/1/2016	$ 6,544,864	$ 1,878,252
5.1%		$26,200,000	$ 7,195,518

The hospital narrative says it will finalize pricing after budget approval. Discuss the strategies the hospital will consider when applying the 1.2% rate decrease for FY 2017.

4) Acute admission declines were budgeted to occur in the 2016 Budget but they did not occur. Now, acute admissions have returned to levels the hospital reported in 2013. This does not appear to be related to market share change. Discuss why acute admissions not related to market share are returning to 2013 actual levels.

5) The hospital narrative describes $950,000 in specific health care reform investments that are budgeted. Explain why case management, medical management, and clinical social worker funding are considered reform investments.

ANALYSIS AND QUESTIONS

6) Bad debt is projected to be lower than budget in 2016, going from $8.3 million to $6.8 million. Describe the recent changes you have seen in terms of caseloads, patient coverages, billing disputes, etc. that might be influencing the changes. Is there any evidence this is related to higher enrollment and/or shift to Medicaid?

7) Free care is also established to be lower, going from $5.6 million to $3.6 million. Describe the changes in free care policy that you have implemented and explain other factors that influence this change.

8) The hospital has budgeted an increase of 63 non-MD FTEs over 2016 budget. We want to understand how many FTEs are being added to support physician expansion and additions. Provide a schedule showing the total number of non-MD FTEs for the hospital separate from those supporting physicians. Show this for the years 2015 through 2017.

9) Describe the hospital's efforts with local mental health and other providers to strengthen community health services. Describe any successes and identify limitations of those efforts.

10) Are the FY 16 projections for net revenues, expenditures, and surplus as reported still valid? If not, describe any material changes.

11) Describe the debt refinancing planned in 2017.

Rutland Regional Medical Center						Vt Median	Northeast CAH	Other Non-Profit	100 - 199 Beds	All Teaching
KEY INDICATORS	**2014 A**	**2015 A**	**2016 B**	**2016 P**	**2017 B**	**2017 B**	**U.S. Benchmarks FY2014**			
Net Patient Revenue Change	**3.5%**	**3.4%**	**2.2%**		**4.4%**					
Overall Rates	**5%**	**8%**	**4%**		**-5.1%**					
Utilization										
Total Average Daily Census	83	81	78	84	84	23.2	-	80	72	192
Adjusted Admissions	17,701	17,208	16,020	17,385	17,390	8,261	-	-	-	-
Capital										
Age of Plant	11.0	11.5	11.7	11.7	12.9	12.0	11.3	11.3	11.2	11.2
Long Term Debt to Capitalization	24.7%	23.7%	20.4%	21.5%	26.8%	26.9%	27.1%	31.2%	23.5%	30.6%
Debt Service Coverage Ratio	6.2	4.5	5.6	7.4	5.4	4.2	4.4	2.8	3.0	5.0
Revenue										
Bad Debt %	1.0%	1.1%	1.6%	1.3%	1.3%	1.6%	5.6%	5.5%	6.7%	4.1%
Free Care %	1.2%	0.8%	1.1%	0.7%	0.7%	0.7%	-	-	-	-
Operating Margin %	5.0%	1.9%	2.4%	4.5%	2.4%	1.9%	-2.4%	0.7%	2.8%	3.0%
Total Margin %	8.2%	1.7%	4.7%	5.8%	5.1%	3.2%	3.2%	3.7%	5.7%	5.6%
Productivity & Staffing										
Total Operating Exp	28.7%	27.9%	28.8%	28.2%	28.1%	26.1%	-	-	-	-
Cost & Revenue Unit of Measure										
Cost per Adjusted Admission	12,391	13,552	14,814	13,933	14,280	10,264	-	7,557	7,453	7,645
Liquidity										
Current Ratio	4.0	3.2	5.9	4.8	5.7	2.9	1.4	2.3	1.7	1.8
Days Cash on Hand	207	195	226	201	246	129	99	74	75	110
Payer										
Medicare Gross as % of Tot Gross Rev	49%	49%	47%	48%	48%	41%	-	-	-	-
Medicaid Gross as % of Tot Gross Rev	19%	19%	20%	19%	19%	19%	-	-	-	-
Comm/self Gross as % of Tot Gross Rev	33%	31%	33%	32%	32%	36%	-	-	-	-
Medicare % of Net Rev (incl DSH)	33%	34%	30%	34%	35%	35%	-	-	-	-
Medicaid % of Net Rev (incl DSH)	13%	13%	15%	12%	12%	12%	-	-	-	-
Comm/self % of Net Rev (incl DSH)	54%	53%	54%	53%	53%	50%	-	-	-	-

Rutland Regional Medical Center

PROFIT & LOSS STATEMENT	2014 A	2015 A	2016 B	2016 P	2017 B	B16-B17 Change $	B16-B17 Change %
Revenues							
Gross Patient Care Revenue	**$ 460,771,041**	**$ 493,394,512**	**$ 510,432,125**	**$ 514,799,410**	**$ 500,916,338**	**$ (9,515,787)**	**-1.9%**
Disproportionate Share Payment	5,217,947	4,576,163	4,169,146	4,200,185	5,724,870	1,555,724	37.3%
Bad Debt	(4,791,443)	(5,520,297)	(8,337,141)	(6,804,114)	(6,626,902)	1,710,239	-20.5%
Free Care	(5,681,211)	(4,167,120)	(5,627,667)	(3,665,372)	(3,569,908)	2,057,759	-36.6%
Graduate Medical Education	-	-	-	-	-	-	
Deductions from Revenue	(234,686,887)	(259,954,621)	(267,388,301)	(264,412,554)	(253,028,950)	14,359,351	-5.4%
Net Patient Care Revenue	**$ 220,829,447**	**$ 228,328,637**	**$ 233,248,162**	**$ 244,117,555**	**$ 243,415,448**	**$ 10,167,286**	**4.36%**
	3.51%	**3.40%**	**2.15%**	**6.91%**	**4.36%**		
Other Operating Revenue	**$ 9,926,146**	**$ 9,275,938**	**$ 9,938,846**	**$ 9,437,234**	**$ 11,017,731**	**$ 1,078,885**	**10.9%**
Total Operating Revenue	**$ 230,755,593**	**$ 237,604,575**	**$ 243,187,008**	**$ 253,554,789**	**$ 254,433,179**	**$ 11,246,171**	**4.6%**
Operating Expense							
Salaries Non MD	66,038,736	70,594,783	73,162,616	77,637,431	82,628,937	9,466,321	12.9%
Fringe Benefits Non MD	24,793,222	27,728,540	25,651,715	27,316,372	27,673,380	2,021,665	7.9%
Fringe Benefits MD	1,815,597	2,101,246	2,008,606	1,505,442	1,529,901	(478,705)	-23.8%
Contracts & Fringes	28,177,523	30,053,013	30,114,342	28,659,948	29,969,647	(144,695)	-0.5%
Health Care Provider Tax	12,808,872	13,002,474	13,519,505	14,351,830	14,352,823	833,318	6.2%
Depreciation Amortization	11,960,609	12,433,769	13,374,000	13,375,319	13,161,688	(212,312)	-1.6%
Interest - Short Term	-	-	-	-	-	-	
Interest - Long Term	*1,862,292*	*1,897,138*	*1,873,113*	*1,871,223*	*1,749,035*	*(124,078)*	-6.6%
Other Operating Expense	*71,869,351*	*75,385,579*	*77,623,157*	*77,513,142*	*77,262,881*	*(360,276)*	-0.5%
Total Operating Expense	**$ 219,326,202**	**$ 233,196,542**	**$ 237,327,054**	**$ 242,230,707**	**$ 248,328,292**	**$ 11,001,238**	**4.6%**
Year over Year Change	**3.5%**	**6.3%**	**1.8%**	-	**4.6%**		
Net Operating Income (Loss)	**$ 11,429,391**	**$ 4,408,033**	**$ 5,859,954**	**$ 11,324,082**	**$ 6,104,887**	**$ 244,933**	**4.2%**
Oper margin %	**5.0%**	**1.9%**	**2.4%**	**4.5%**	**2.4%**		
Non-Operating Revenue	**$ 8,151,845**	**$ (492,377)**	**$ 5,973,111**	**$ 3,615,606**	**$ 7,136,913**	**$ 1,163,802**	**19.5%**
Over Expense	**$ 19,581,236**	**$ 3,915,656**	**$ 11,833,065**	**$ 14,939,688**	**$ 13,241,800**	**$ 1,408,735**	**11.9%**

Bad debt and free care are budgeted at 2016 projected levels and include changes to their free care policy and use of financial counselors.

Over $9 million of "other operating revenue" is primarily made up of 340B pharmacy funds, Employee Pharmacy Sales, and Grant Income.

Fringe, salaries, and the provider tax reflect the increases. The hospital states it has not budgeted inflation in this budget. (other than wage increases)

The hospital has budgeted an operating gain consistent with 2016B.

Rutland Regional Medical Center

UTILIZATION & STAFFING		2013 A		2014 A		2015 A		2016 B		2016 P		2017 B	B16-B17 Change
UTILIZATION													
Adjusted Admissions		18,323		17,701		17,208		16,020		17,385		17,390	8.5%
Acute Admissions		6,304		5,897		5,941		5,541		6,272		6,272	13.2%
Acute Average Length Of Stay		4.5		4.6		4.6		4.9		4.8		4.8	-3.1%
Operating Room Procedure		4,855		4,592		4,539		4,990		4,868		4,978	-0.2%
Laboratory Tests		544,493		522,183		505,126		508,366		499,542		499,627	-1.7%
Emergency Room Visits		34,676		33,992		34,067		34,467		31,558		31,558	-8.4%
Cat Scan, Radiology - Diagnostic Procedures		54,632		53,379		54,203		50,365		50,809		50,869	1.0%
Magnetic Resonance Image Exams		4,556		4,503		4,694		4,472		5,121		5,121	14.5%
Physician Office Visits		0		0		0		0		0		0	0.0%
Clinics Visits		277,893		347,276		357,686		363,816		371,554		387,801	6.6%
STAFFING													
Non-MD FTEs		1,140		1,107		1,166		1,191		1,247		1,255	63
Travelers		32		82		93		74		74		72	-2
Residents & Fellows		0		0		0		0		0		0	0
Mid Level Providers		0		0		0		27		0		29	2
Physician FTEs		80		81		88		66		69		71	5
Total MD and Non MD FTEs		1,252		1,270		1,347		1,358		1,389		1,427	68
Salary & Benefits per FTE - Non-MD	$	79,878	$	82,059	$	84,339	$	82,950	$	84,174	$	85,921	3.6%
FTEs Per Adjusted Occupied Bed		5.1		4.9		5.4		5.5		5.5		5.6	2.4%
FTEs per 100 Adj Discharges		6.2		6.3		6.8		7.4		7.2		7.4	-0.7%
Comparative Benchmarks													
Vermont System Averages													
Salary & Benefits per FTE - Non-MD	$	77,361	$	78,162	$	80,704	$	82,457	$	83,286	$	83,856	1.7%
FTEs Per Adjusted Occupied Bed		5.4		5.5		5.7		5.8		5.8		6.1	4.5%
FTEs per 100 Adj Discharges		6.7		7.0		7.2		7.5		7.2		7.5	-0.2%
U.S. Benchmarks													
FTEs Per Adjusted Occupied Bed													
Northeast Critical Access Hospital		0.00		0.00		-		-		-		-	
Other Non-Profit		3.60		3.60		-		-		-		-	
100 - 199 Beds		3.45		3.45		-		-		-		-	
All Teaching		3.45		3.45		-		-		-		-	

Some of the change in acute admissions is market share - an estimated 170 increase in orthopedic and neurology. The balance is a recognition that the 2016 budget was too low and lower admissions were never achieved. MRIs are up related to the increased admissions.

Increase in FTEs is due to new positions to support physician acquisitions, elimination of lag time (see narrative) , and to meet increased utilization. FY 17 reflects five new physician FTEs.

The 3.6% over budget is mainly due to a 3% wage increase.

This benchmark is lower then their VT peers but higher then their national peers for the same time periods.

Rutland Regional Medical Center

BALANCE SHEET	2014 A	2015 A	2016 B	2016 P	2017 B
Cash & Investments	$ 12,724,165	$ 12,803,315	$ 23,680,313	$ 14,551,514	$ 39,503,614
Total Current Assets	$ 49,650,142	$ 43,194,794	$ 60,606,292	$ 50,110,462	$ 75,062,562
Board Designated Assets	$ 105,910,657	$ 106,222,958	$ 116,201,517	$ 111,704,153	$ 118,841,066
Net, Property, Plant And Equipment	$ 72,580,136	$ 73,717,869	$ 67,234,042	$ 77,126,741	$ 73,819,053
Other Long-Term Assets	$ 9,834,220	$ 9,289,915	$ 9,834,219	$ 4,122,446	$ 4,122,446
Total Assets	$ 237,975,155	$ 232,425,536	$ 253,876,070	$ 243,063,802	$ 271,845,127
Current Liabilities	$ 30,910,371	$ 32,967,019	$ 29,934,102	$ 32,485,501	$ 32,891,935
Long Term Liabilities	$ 41,137,355	$ 39,991,232	$ 38,263,410	$ 38,263,410	$ 56,102,482
Other Noncurrent Liabilities	$ 40,618,083	$ 30,961,803	$ 36,473,642	$ 32,450,125	$ 29,744,143
Fund Balance	$ 125,309,346	$ 128,505,482	$ 149,204,916	$ 139,864,766	$ 153,106,567
Total Liabilities and Equities	$ 237,975,155	$ 232,425,536	$ 253,876,070	$ 243,063,802	$ 271,845,127
Rutland Regional Medical Center					
Net Increase/(Decrease) in Cash	$ 7,516,382	$ 79,150	$ 10,876,998	$ 1,748,199	$ 15,823,301
Days Cash on Hand	207.0	195.1	225.7	201.4	245.8
Long Term Debt to Capitalization	24.7%	23.7%	20.4%	21.5%	26.8%
Debt Service Coverage Ratio	6.2	4.5	5.6	7.4	5.4
Comparative Benchmarks					
Vermont System Averages					
Net Increase/(Decrease) in Cash	$ 54,485,429	$ (13,749,624)	$ (778,512)	$ (3,061,249)	$ (680,856)
Days Cash on Hand	176.3	178.5	179.6	174.8	165.5
Long Term Debt to Capitalization	29.7%	27.6%	31.3%	32.0%	29.5%
Debt Service Coverage Ratio	3.3	3.7	2.7	2.8	3.1
U.S. Benchmarks					
100-199 Beds					
Days Cash on Hand-Peers	74.80	-	-	-	-
Long Term Debt to Capitalization-Peers	24%	-	-	-	-
Debt Service Coverage Ratio-Peers	3.0	-	-	-	-

The balance sheet suggests additional borrowing will take place in 2016-2017. The hospital will explain the borrowing at the hearing.

The hospital plans to make $2 million in contributions to their Defined benefit pension plan liability for 2016 and 2017. Additional contributions are under consideration.

The hospital's debt position compares favorable with both the Vermont hospital median and 100-199 Bed peers. Also, the days cash on hand to "cover" their debt is also more favorable. The hospital has added debt and is generating more cash in FY 2017.

Rutland Regional Medical Center

Capital Budget	2014 A	2015 A	2016 B	2016 P	2017 B	2018 Plan	2019 Plan	2020 Plan
Non-Certificate of Need Capital Plans Tot:	$ 7,802,611	$ 12,702,094	$ 9,878,000	$ 9,878,000	$ 9,854,000	$ 6,841,000	$ 4,575,000	$ 4,062,000
Certificate of Need Capital Plans	$ 5,218,870	$ 955,838	$ 11,750,000	$ 11,750,000	$ 33,075,000	$ -	$ 18,000,000	$ 15,000,000
Total Capital Purchases	$ 13,021,481	$ 13,657,932	$ 21,628,000	$ 21,628,000	$ 42,929,000	$ 6,841,000	$ 22,575,000	$ 19,062,000

Rutland Regional Medical Center	2014 A	2015 A	2016 B	2016 P	2017 B
Age of Plant	11.0	11.5	11.7	11.7	12.9
Capital Expenditures to Depreciation	65.2%	102.2%	73.9%	73.9%	74.9%
Capital Cost % of Total Expense	6.3%	6.1%	6.4%	6.3%	6.0%

Comparative Benchmarks	2014 A	2015 A	2016 B	2016 P	2017 B
Vermont System Averages					
Age of Plant	10.2	11.4	11.9	11.9	12.3
Capital Expenditures to Depreciation	80.6%	97.1%	95.1%	96.0%	122.8%
Capital Cost % of Total Expense	5.9%	5.4%	5.8%	5.6%	5.3%
U.S. Benchmarks					
100-199 Beds		-	-	-	-
Age of Plant-Peers	11.2	-	-	-	-
Capital Expenditures to Depreciation-Pee	0.0%	-	-	-	-
Capital Cost % of Total Expense-Peers	6.0%	-	-	-	-

The hospital's capital costs are higher compared to Vermont peers but the age of plant is about the same. Physical plant is younger but equipment is older compared to Vermont peers.

See the hospital narrative that outlines the major spending plans over the next few years. They have significant CONs planned in FY 2017 for a loading dock, Medical Office building and Nuclear Med Discovery for 2017.

Additional CONs are planned in 2019 and 2020.

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

August 1, 2016

Dear Mike:

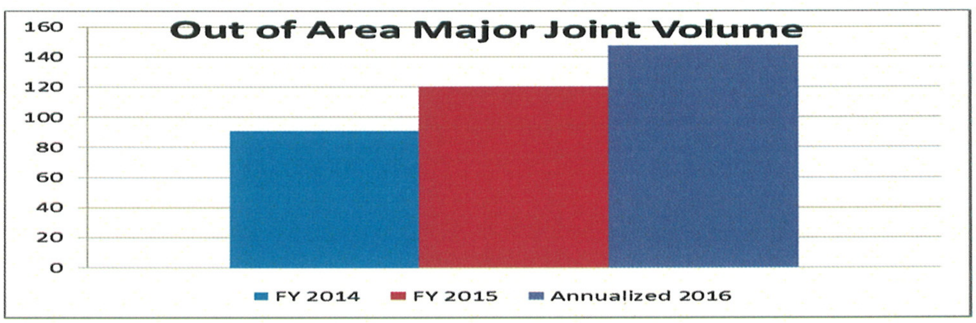
Rutland Regional Medical Center (RRMC) is requesting consideration and approval to increase the amount of net patient service revenue allowed in 2016 and therefore carried forward to 2017 to account for changes in market share related to physician acquisitions and patient choice. We detail our request below.

Our 2017 net patient service revenue budget increases by 4.3% when compared to the 2016 Budget. In accordance with the State regulated 3.4% growth limitation, including healthcare reform growth, this represents an increase of $2,237,000 more than the limit would support, or approximately 1%. We have verified that this growth is related to shifts in market share and request that our 2016 Budget be rebased to account for these changes. We can document that we are seeing an increase in volume from patients that are seeking services at RRMC that reside 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 as illustrated below.

	Gross Revenue	Net Revenue
New Programs:		
Dr. Henley Clinic and OR	$4,000,000	$1,900,000
Neurology Clinic	$820,100	$364,000
Patient Choice:		
Orthopedic Procedures	$4,415,600	$1,988,000
Reduction in Transfers:		
Neurology (Inpatient)	$ 735,000	$ 330,000
Total	$9,970,700	$4,582,000

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 and joined RRMC in October 2015. Please refer to the State adopted physician transfer schedule which documents the financial impact of the physician transfer.

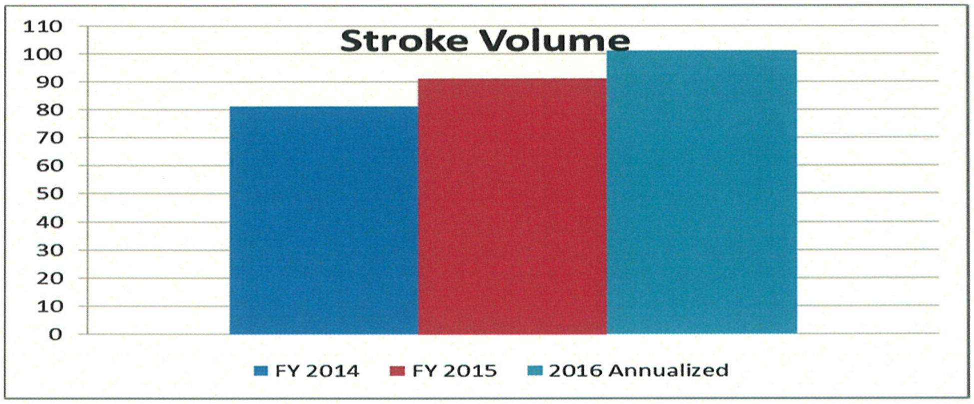
In other instances growth in orthopedic volume is driven by patient choice and an increase in patients who are electing to have their orthopedic care performed in Rutland. This is most evident within our major joint procedures (hips and knees). Over the past two years we have seen consistent growth in the major joint procedures that have come from market areas other than Rutland. The impact of patient choice results in an increase of 150 patient admissions, equivalent to a 62% growth for major joint procedures. Given our payer mix and to be conservative, the addition of 150 major joint cases generates additional net income of approximately $2.0 million. In addition to the graph below please refer to the listing of major joint admissions by service area.



Together, we estimate that the orthopedic market share growth will impact fiscal year 2016 by as much as $3.9 million in net revenue.

Neurology – In November of 2015 we acquired an existing physician practice that was formerly located in Rutland. This practice has two 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. Please refer to the State adopted physician transfer schedule which documents that financial impact of the physician transfer.

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. Specifically, we have significantly reduced the number of patient transfers to tertiary facilities for patients who suffer strokes. Over the past two years we have seen consistent growth in the stroke diagnosis, resulting in an increase of 20 patient admissions, equivalent to a 25% growth in stroke inpatient care. We calculate that our ability to retain these patients in our own facility increases our net patient revenue by $330,000. In addition to the graph below please refer to the listing of stroke admissions by service area.



Together, orthopedics and neurology combined, we can account for nearly $4.5 million in net revenue that we believe has been generated from other service / private practice areas. Overall, this is not new revenue to the State of Vermont; however they are new revenue sources for RRMC.

We appreciate your consideration of this request and can provide additional documentation or engage in direct discussion if that would prove helpful.

Very truly yours,

Judi K Fox

Judi Fox
CFO

Attachments
cc: Thomas Huebner
Lori Perry
Janeen Morrison