

Brattleboro Memorial Hospital

Fiscal Year 2019 Budget Analysis

Report Date: 7/30/2018

QUESTIONS

HIGH-LEVEL OBSERVATIONS:

BMH documented its request from last October that the GMCB restore NPR that was reduced in the FY2018 Budget when addressing ACO risk as a component of the requested rate/price increase. If that NPR (\$1,323,195) was to be added back into the FY2018 base, the hospital's FY2019 proposed NPR would represent an increase of 4.8% rather than 6.5%.

QUESTIONS:

1. Have the hospital's projections for FY2018 changed?
2. Please explain factors driving changes in Bad Debt and Free Care from FY2018 Budget to FY2018 Projections and 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. Please indicate whether there are other strategies being considered to increase and stabilize operating margin in addition to cost containment measures and increasing Commercial rates.
5. Please describe factors relating to the increase in Cost per Adjusted Admission.
6. Please provide more detail about the factors driving decreases in utilization, as well as the increase in Operating Room Procedures.
7. Please explain why Salary and Benefits per FTE - Non-MD shows a decrease from FY2018 Projections.
8. Is Long Term Debt increasing because of the approved CON modernization project? Are there other factors influencing the increase?
9. Where is the Medicare \$1.6 million settlement recorded and in what year? Please provide information about the settlement, how it has affected the hospital's budget, and any actions the hospital is taking to ensure that the problem is addressed going forward.
10. Please complete the table that has been provided to clarify accounting of ACO-related revenue and expenses.

Fiscal Year 2019 Budget Analysis									
Brattleboro Memorial Hospital									
INCOME STATEMENT	FY2015A	FY2016A	FY2017A	FY2018B	FY2018P	FY2019B	2018B - 2018P	2018B - 2019B	2018P - 2019B
							% Chg	% Chg	% Chg
Revenues									
Gross Patient Care Revenue	153,068,995	148,991,981	150,218,471	169,571,693	157,540,808	173,474,026	-7.1%	2.3%	10.1%
Disproportionate Share Payments	1,050,746	918,389	866,228	517,313	515,085	604,168	-0.4%	16.8%	17.3%
Bad Debt	(4,437,076)	(3,778,102)	(3,915,046)	(3,203,297)	(6,073,105)	(3,945,059)	89.6%	23.2%	-35.0%
Free Care	(3,520,013)	(880,452)	(1,192,080)	(1,509,789)	(743,272)	(1,484,209)	-50.8%	-1.7%	99.7%
Deductions from Revenue	(70,419,732)	(72,087,006)	(70,915,040)	(86,496,487)	(80,212,947)	(94,711,995)	-7.3%	9.5%	18.1%
Net Patient Care Revenue	75,742,920	73,164,810	75,062,532	78,879,433	71,026,568	73,936,931	-10.0%	-6.3%	4.1%
Fixed Prospective Payments & Reserves	0	0	0	0	7,613,936	10,031,219	#DIV/0!	#DIV/0!	31.7%
Net Patient Care Revenue & Fixed Payments & Reserves	75,742,920	73,164,810	75,062,532	78,879,433	78,640,504	83,968,150	-0.3%	6.5%	6.8%
Other Operating Revenue	2,926,101	2,435,186	3,803,166	3,555,853	3,425,755	3,221,145	-3.7%	-9.4%	-6.0%
Total Operating Revenue	78,669,021	75,599,996	78,865,698	82,435,286	82,066,260	87,189,295	-0.4%	5.8%	6.2%
Expenses									
Salaries Non MD	23,623,798	24,114,635	24,916,816	26,810,405	25,948,687	28,096,755	-3.2%	4.8%	8.3%
Fringe Benefits Non MD	7,268,954	6,692,579	6,748,472	7,343,526	8,227,370	7,458,826	12.0%	1.6%	-9.3%
Fringe Benefits MD	0	0	0	0	0	0	#DIV/0!	#DIV/0!	#DIV/0!
Physician Fees, Salaries, Contracts	14,258,726	14,695,165	16,347,060	17,436,707	17,057,603	18,758,159	-2.2%	7.6%	10.0%
Health Care Provider Tax	4,312,811	4,568,419	4,420,086	4,500,295	4,502,274	5,035,156	0.0%	11.9%	11.8%
Depreciation & Amortization	4,266,138	4,348,154	4,271,163	3,933,151	4,766,908	4,641,677	21.2%	18.0%	-2.6%
Interest - Long Term & Short Term	232,157	191,396	162,833	234,071	145,055	210,141	-38.0%	-10.2%	44.9%
Other Operating Expense	22,510,558	21,427,020	24,436,473	23,140,261	23,336,753	22,733,631	0.8%	-1.8%	-2.6%
Total Operating Expense	76,473,143	76,037,368	81,302,905	83,398,416	83,984,651	86,934,345	0.7%	4.2%	3.5%
Net Operating Income (Loss)	2,195,878	(437,372)	(2,437,207)	(963,130)	(1,918,391)	254,950	99.2%	-126.5%	-113.3%
Non-Operating Revenue	1,020,455	2,232,750	3,200,593	740,000	1,451,110	758,000	96.1%	2.4%	-47.8%
Excess (Deficit) of Rev Over Exp	3,216,333	1,795,377	763,386	(223,130)	(467,281)	1,012,950	109.4%	-554.0%	-316.8%
Benchmarks-Hospital									
Operating Margin%	2.8%	-0.6%	-3.1%	-1.2%	-2.3%	0.3%			
Total Margin %	4.0%	2.3%	0.9%	-0.3%	-0.6%	1.2%			
Cost per Adjusted Admission	9,021	9,285	10,566	10,550	12,809	12,878			
<p>Observations: BMH's NPR increase of \$4.8 million is 6.5% over the FY2018 Budget. This is approximately \$2.6 million over the 3.2% NPR growth target (including the 0.4% allowance for health care reform investments). BMH documented its request from last October that the GMCB restore NPR that was reduced in the FY2018 Budget when addressing ACO risk as a component of the requested rate/price increase. If that NPR (\$1,323,195) was to be added back into the FY2018 base, the hospital's FY2019 proposed NPR would represent an increase of 4.8% rather than 6.5%. The hospital's expenses are increasing at 4.2%. The Cost per Adjusted Admission shows a 22.1% increase from FY2018 Budget to FY2019 Budget. There is a significant increase in Bad Debt in the FY18 Projections, while Free Care shows a decline. Deductions from Revenue are also showing a large increase for FY2019, driven by Medicare changes in reimbursement (see narrative). BMH has addressed concerns about Operating Margin trend in its narrative.</p> <p>Questions: Please explain factors driving changes in Bad Debt and Free Care from FY2018 Budget to FY2018 Projections and FY2019 Budget (including policy changes if any). Please indicate whether there are other strategies being considered to increase and stabilize operating margin in addition to cost containment measures and increasing Commercial rates. Please describe factors relating to the increase in Cost per Adjusted Admission.</p>									

Fiscal Year 2019 Budget Analysis **Brattleboro Memorial 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	\$169,571,693	\$157,540,808	\$173,474,026	-7.1%	2.3%	10.1%		
	Contractual Allowances	(\$86,496,487)	(\$80,212,947)	(\$94,711,995)	-7.3%	9.5%	18.1%		
	Bad Debt	(\$3,203,297)	(\$6,073,105)	(\$3,945,059)	89.6%	23.2%	-35.0%		
	Free Care	(\$1,509,789)	(\$743,272)	(\$1,484,209)	-50.8%	-1.7%	99.7%		
	Graduate Medical Education Payments	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!		
	Disproportionate Share Payments	\$517,313	\$515,085	\$604,168	-0.4%	16.8%	17.3%		
	Net Payer Revenue	\$78,879,433	\$71,026,569	\$73,936,931	-10.0%	-6.3%	4.1%		
Fixed Prospective Payments & Reserves	\$0	\$7,613,936	\$10,031,219	#DIV/0!	#DIV/0!	31.7%			
Net Patient Care Rev & Fixed Payments & Reserves	\$78,879,433	\$78,640,505	\$83,968,150	-0.3%	6.5%	6.8%	\$1,922,146	\$4,011,292	
Commercial	Gross Patient Care Revenue	\$61,456,054	\$55,077,575	\$62,116,155	-10.4%	1.1%	12.8%		
	Contractual Allowances	(\$14,714,073)	(\$16,099,871)	(\$15,006,346)	9.4%	2.0%	-6.8%		
	Bad Debt	(\$3,203,297)	(\$6,073,105)	(\$3,945,059)	89.6%	23.2%	-35.0%		
	Free Care	(\$1,509,789)	(\$743,272)	(\$1,484,209)	-50.8%	-1.7%	99.7%		
	NPR	\$42,028,895	\$32,161,327	\$41,680,541	-23.5%	-0.8%	29.6%		
	Fixed Prospective Payment & Reserves	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!		
	Total Net Payer Revenue & Fixed Prospective Payment	\$42,028,895	\$32,161,327	\$41,680,541	-23.5%	-0.8%	29.6%	\$1,922,146	(\$1,425,777)
Medicaid	Gross Patient Care Revenue	\$33,877,581	\$28,801,824	\$31,716,352	-15.0%	-6.4%	10.1%		
	Contractual Allowances	(\$24,016,028)	(\$20,695,934)	(\$24,170,379)	-13.8%	0.6%	16.8%		
	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	\$9,861,553	\$8,105,890	\$7,545,973	-17.8%	-23.5%	-6.9%		
	Fixed Prospective Payment & Reserves	\$0	\$2,241,990	\$2,868,445	#DIV/0!	#DIV/0!	27.9%		
Total Net Payer Revenue & Fixed Prospective Payment	\$9,861,553	\$10,347,880	\$10,414,418	4.9%	5.6%	0.6%	\$0	\$552,864	
Medicare	Gross Patient Care Revenue	\$74,238,058	\$73,661,409	\$79,641,519	-0.8%	7.3%	8.1%		
	Contractual Allowances	(\$47,766,386)	(\$43,417,142)	(\$55,535,270)	-9.1%	16.3%	27.9%		
	Bad Debt	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!		
	Free Care	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!		
	NPR	\$26,471,672	\$30,244,267	\$24,106,249	14.3%	-8.9%	-20.3%		
	Fixed Prospective Payment & Reserves	\$0	\$5,371,946	\$7,162,774	#DIV/0!	#DIV/0!	33.3%		
	Total Net Payer Revenue & Fixed Prospective Payment	\$26,471,672	\$35,616,213	\$31,269,023	34.5%	18.1%	-12.2%	\$0	\$4,797,350
Disproportionate Share Payments	\$517,313	\$515,085	\$604,168	-0.4%	16.8%	17.3%		\$86,855	
NPR to Gross Commercial (no dsh)	68.4%	58.4%	67.1%						
NPR to Gross Medicaid (no dsh)	29.1%	35.9%	32.8%						
NPR to Gross Medicare (no dsh)	35.7%	48.4%	39.3%						
NPR to Gross All (no dsh)	46.2%	49.6%	48.1%						

Observations: The increase in NPR is predominantly due to an increase in utilization in both Medicare and Medicaid, with a decrease in Commercial. The rate increase is budgeted in Commercial. Bad Debt is expected to increase \$716,181 budget to budget. The NPR to Gross for each payer is showing large fluctuations, perhaps due to accounting changes related to Gross Revenue associated with Fixed Prospective Payments or reimbursements from Medicaid and Medicare. Disproportionate Share Payments show an increase of \$86,855.

Brattleboro Memorial 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%
Brattleboro Memorial Hospital Approved Rate	2.70%	-1.40%	3.50%	5.70%	
Brattleboro Memorial Hospital Submitted Rate	2.70%	-1.20%	3.50%	8.90%	4.90%

Hospital Inpatient Gross Revenue	5.6%
Hospital Outpatient Gross Revenue	5.6%
Physician Outpatient Gross Revenue	0.0%
Chronic/SNF Gross Revenue	0.0%
Swing Gross Revenue	0.0%

Net Patient Revenue Change Due to Rate Request		
	Commercial	\$ 1,922,146
	Medicaid	\$ -
	Medicare	\$ -
	Disproportionate Share	\$ -
	Total Change Due to Rate Request	\$ 1,922,146

Value of 1% Rate - Calculated by GMCB	\$ 392,275
Value of 1% Rate - Calculated by BMH	\$ 392,275
	Variance \$ (0)

BMH has a rate/price request of 4.9%.

The 4.9% increase will result in increased NPR of \$1.9 million.

For BMH, every 1% increase in rate/price is worth approximately \$392,275 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	Brattleboro Memorial Hospital					
DASHBOARD	FY2015A	FY2016A	FY2017A	FY2018B	FY2018P	FY2019B
Net Patient Care Revenue	75,742,920	73,164,810	75,062,532	78,879,433	71,026,568	73,936,931
Net Patient Care Rev & Fixed Payments & Reserves	75,742,920	73,164,810	75,062,532	78,879,433	78,640,504	83,968,150
NPR & FPP % Variance		-3.4%	2.6%	5.1%	-0.3%	6.5%
Three Year NPR & FPP CAGR* (FY16A - FY19B)						4.7%
Operating Expense	76,473,143	76,037,368	81,302,905	83,398,416	83,984,651	86,934,345
Oper Exp % Variance		-0.6%	6.9%	2.6%	0.7%	4.2%
Three Year Oper. Exp. CAGR* (FY16A - FY19B)						4.6%
Revenue						
Operating Margin %	2.8%	-0.6%	-3.1%	-1.2%	-2.3%	0.3%
Total Margin %	4.0%	2.3%	0.9%	-0.3%	-0.6%	1.2%
Bad Debt %	2.9%	2.5%	2.6%	1.9%	3.9%	2.3%
Free Care %	2.3%	0.6%	0.8%	0.9%	0.5%	0.9%
Cost						
Cost per Adjusted Admission	9,021	9,285	10,566	10,550	12,809	12,878
Overhead Exp. as a % of Total Operating Exp.	20.8%	21.5%	21.8%	22.1%	21.3%	21.2%
Productivity & Utilization						
Acute Admissions	1,569	1,611	1,618	1,687	1,565	1,556
Adjusted Admissions	8,477	8,189	7,695	7,905	6,557	6,751
Average Length of Stay	3	3	3	3	3	3
FTEs Per Adjusted Occupied Bed	5	6	6	7	7	8
FTEs per 100 Adj Discharges	5	5	6	6	7	7
Cash						
Days Cash on Hand	195.7	228.5	195.0	214.8	156.1	196.2
Current Ratio	3.5	3.6	3.3	4.0	3.3	3.5
Capital						
Age of Plant	8.6	9.4	9.9	12.5	9.9	11.2
Long Term Debt to Capitalization	13.5%	15.4%	13.5%	11.3%	11.5%	21.6%
Debt Service Coverage Ratio	9.53	2.86	1.40	2.72	2.75	3.53
*CAGR = Compounded Annual Growth Rate						

Fiscal Year 2019 Budget Analysis							Brattleboro Memorial Hospital			
UTILIZATION & STAFFING	FY2015A	FY2016A	FY2017A	FY2018B	FY2018P	FY2019B	2018B-2018P	2018B-2019B	2018P-2019B	
UTILIZATION										
Adjusted Admissions	8,477	8,189	7,695	7,905	6,557	6,751	-17.1%	-14.6%	3.0%	
Acute Admissions	1,569	1,611	1,618	1,687	1,565	1,556	-7.2%	-7.8%	-0.6%	
Acute Average Length Of Stay	3.3	3.3	3.3	3.3	3.5	3.2	6.3%	-3.7%	-9.4%	
All Operating Room Procedure	2,327	2,366	2,534	2,420	2,463	2,644	1.8%	9.3%	7.3%	
Tests	216,947	220,825	211,401	219,535	219,535	214,150	0.0%	-2.5%	-2.5%	
Emergency Room Visits	13,557	13,399	14,173	14,027	13,335	13,335	-4.9%	-4.9%	0.0%	
CT Scan, Radiology - Diagnostic	34,748	33,053	29,530	32,379	30,050	30,150	-7.2%	-6.9%	0.3%	
Exams	2,169	2,266	2,213	2,249	2,157	2,207	-4.1%	-1.9%	2.3%	
Provider Work RVU	0	0	0	0	0	0	#DIV/0!	#DIV/0!	#DIV/0!	
Physician Office Visits	244,105	242,651	259,130	316,619	263,181	311,519	-16.9%	-1.6%	18.4%	
Clinic Visits	0	0	0	0	0	0	#DIV/0!	#DIV/0!	#DIV/0!	
STAFFING										
FT Equivalents (Heads)	412	420	432	471	445	474	(26)	3	29	
Travelers, Travelers MD	3	7	12	0	0	0	0	0	0	
Residents & Fellows	0	0	0	0	0	0	0	0	0	
MLPs	0	0	0	0	0	0	0	0	0	
Physician FTEs	44	43	44	57	51	58	(5)	1	7	
Total FTEs	459	471	488	528	496	532	(31)	4	35	
Benchmarks-Hospital										
Salary per FTE - Non-MD	\$ 57,355	\$ 57,360	\$ 57,730	\$ 56,914	\$ 58,296	\$ 59,272	2.4%	4.1%	1.7%	
Salary & Benefits per FTE - Non-MD	\$ 75,002	\$ 73,279	\$ 73,366	\$ 72,503	\$ 76,779	\$ 75,007	5.9%	3.5%	-2.3%	
FTEs Per Adjusted Occupied Bed	5	6	6	7	7	8	7.2%	22.4%	14.2%	
FTEs per 100 Adj Discharges	5	5	6	6	7	7	13.9%	17.8%	3.4%	
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 shows a decrease over FY2018 Budget and an increase over FY2018 Projections. The narrative indicates that decreases in Admissions and Physician Office Visits are related to physician vacancies. The only increase in utilization categories is in Operating Room Procedures. FTEs per Adjusted Occupied Bed is higher than the Vermont System Average, and FTEs per 100 Adjusted Discharges is below the Vermont System Average. Salary per FTE and Salary & Benefits per FTE are below the Vermont System Average.

Questions: Please provide more detail about the factors driving decreases in utilization, as well as the increase in Operating Room Procedures. Please explain why Salary and Benefits per FTE - Non-MD shows a decrease from FY2018 Projections.

Fiscal Year 2019 Budget Analysis		Brattleboro Memorial Hospital				
BALANCE SHEET	FY2015A	FY2016A	FY2017A	FY2018B	FY2018P	FY2019B
Cash & Investments	\$ 2,647,794	\$ 4,193,240	\$ 2,595,840	\$ 3,320,662	\$ 3,250,000	\$ 4,465,685
Risk Reserve for Fixed Reform Payments	-	-	-	-	-	-
Other Current Assets	12,723,396	11,631,251	15,265,678	10,872,608	11,772,739	11,665,240
Current Assets	15,371,190	15,824,491	17,861,517	14,193,270	15,022,739	16,130,925
Board Designated Assets	36,064,671	40,688,744	38,550,477	43,448,955	30,622,757	39,768,177
Net, Property, Plant And Equipment	27,389,285	27,068,802	28,117,484	23,053,288	33,179,115	32,993,701
Other Long-Term Assets	-	-	-	-	-	300,001
Assets	\$ 78,825,146	\$ 83,582,038	\$ 84,529,479	\$ 80,695,513	\$ 78,824,611	\$ 89,192,804
Current Liabilities	\$ 14,252,467	\$ 15,351,245	\$ 16,906,144	\$ 14,156,837	\$ 13,673,308	\$ 14,573,132
Long Term Liabilities	8,721,762	10,513,802	9,097,624	7,491,821	7,491,821	16,097,241
Other Noncurrent Liabilities	-	-	-	-	-	-
Fund Balance	55,850,917	57,716,990	58,525,710	59,046,855	57,659,482	58,522,431
Liabilities and Equities	\$ 78,825,146	\$ 83,582,037	\$ 84,529,478	\$ 80,695,513	\$ 78,824,611	\$ 89,192,804
Benchmarks-Hospital						
Days Cash on Hand	195.7	228.5	195.0	214.8	156.1	196.2
Long Term Debt to Capitalization	13.5%	15.4%	13.5%	11.3%	11.5%	21.6%
Debt Service Coverage Ratio	9.5	2.9	1.4	2.7	2.8	3.5
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 budgeted to remain above the Vermont System Average. Board Designated Assets have been projected to decrease and Long Term Debt is budgeted to increase. Debt measures appear healthy and are lower than the Vermont System Average.</p> <p>Questions: Is Long Term Debt increasing because of the approved CON modernization project? Are there other factors influencing the increase?</p>						

Fiscal Year 2019 Budget Analysis

Brattleboro Memorial Hospital

CAPITAL BUDGET	2015A	FY2016A	FY2017A	FY2018B	FY2018P	FY2019B	2020 Plan	2021 Plan	2022 Plan
Non-Certificate of Need Capital Plans Total				\$ 3,131,420	\$ 3,131,420	\$ 2,062,129	\$ 4,106,176	\$ 2,117,082	\$ 2,258,224
Certificate of Need Capital Plans				\$ -	\$ -	\$ 7,500,000	\$ 22,500,000	\$ -	\$ -
Total Capital Purchases				\$ 3,131,420	\$ 3,131,420	\$ 9,562,129	\$ 26,606,176	\$ 2,117,082	\$ 2,258,224

Brattleboro Memorial Hospital									
Age of Plant	8.6	9.4	9.9	12.5	9.9	11.2			
Capital Expenditures to Depreciation	83.3%	101.6%	129.3%	79.6%	65.7%	44.4%			
Capital Cost % of Total Expense	5.9%	6.0%	5.5%	5.0%	5.8%	5.6%			

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%	-	-	-

Observations: There are no major investments in excess of \$500,000. The CON modernization project that was approved by the GMCB in September 2017 is scheduled to begin work soon; see balance sheet accounts. Age of Plant is below the Vermont System Average.