North Country Hospital
Where caring runs deep.

FY2020 Budget Narrative

1. *Executive Summary*. **Summarize the changes in the hospital budget submission. Include any information the GMCB should know about programmatic, staffing, and operational changes.** FTEs were reduced in FY19 and those reductions are carried forward into FY20 budget. Some of the reductions were achieved through attrition as a result of efficiencies realized with the new EHR system, athenaHealth, which was implemented in May, 2018. Areas with reductions include Information Systems, Health Information Management and Patient Financial Services. Additional reductions were achieved in our inpatient care area by physically consolidating Med/Surg and ICU. We have anticipated overall volumes remaining flat for FY20 compared to FY19 actuals.

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 2020 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.)** North Country Hospital is currently only under contract with OneCare Vermont to participate in the Medicaid ACO.

   B. **What is the maximum upside and downside risk the hospital has assumed?** The maximum upside and downside risk the hospital has assumed is $375,000.

      i. **How is the risk (up-and downside) accounted for in the financials?** The risk has been built into the reserves of the hospital on the balance sheet in FY2019. Evaluating the amount needed for reserves on the balance sheet for up-and downside will be coordinated with the hospital's external auditing team.

      ii. **How will the hospital track and ensure that provider financial incentives do not have a negative impact on patient care?** Our incentive plan for physicians contains both productivity based incentives as well as population based incentives. We benchmark our physician productivity against the Medical Group Management Association national survey data base. We monitor both the number of patients seen as well as the number of Work Relative Value Units (wRVUs) produced very closely to ensure that our physicians are seeing the appropriate amount of patients and producing the appropriate amount of Work Relative Value Units related to the patients seen. We strive for our physicians to produce at or very near the median of the survey benchmark. By striving to achieve the Median of the survey we believe that provides the appropriate balance of seeing the patients that need to be seen in a timely fashion and still allow the physicians the opportunity to receive some incentive compensation.

C. **What amount of Other Reform payments does the hospital expect to receive from OneCare Vermont by the end of calendar year 2018? (*e.g.,* payments from OneCare's Value-Based Incentive Program based on quality performance)** North Country expects to receive all other reform payments that are available to it by the end of calendar year 2019 which equates to approximately $315,000.

D. **Are the hospital's employees attributed to OneCare, either through participation in a OneCare self-insured program or, if fully-insured, through the hospital's insurer? If not, why not?** We currently are only contracted with OneCare for Medicaid.

E. **How is the hospital changing the allocation of resources in its budget to improve population health, under the All-Payer ACO Model and/or other initiatives?** North Country budgeted an additional $250k for community health expense for FY20 in an effort to improve population health.

3. *Reconciliation*.
   Provide reconciliation between FY 2019 approved budget and FY 2019 full-year projection, showing both positive and negative variances. Explain the variances. Areas that have significant variances to budget include Bad Debt. When the 2019 budget was constructed, Bad Debt was trending lower than we are currently experiencing. Salaries are projected to be less than the FY2019 budget with the offset being Locums being over budget by a similar amount. Supplies have been trending with a favorable variance to budget.

4. *Budget-to-budget growth.*
   A. **Net patient revenue and Fixed Prospective Payments:**
      i. **Explain the budgeted FY2020 NPR/FPP increase over the approved FY19 budget and over the FY19 full-year projection. If the GMCB rebased the hospital's budget for the purpose of calculating FY20, provide the budgeted increase in NPR/FPP for FY20 measured from the hospital's rebased budget.**
      The budgeted FY20 NPR increase over the approved FY2019 budget is 3.2%. The GMCB did not rebase the FY19 budget for North Country.
      ii. **Describe any significant changes made to the FY20 budget (including, but not limited to, changes in anticipated reimbursements, physician acquisitions and certificates of need) and how they affect the FY20 proposed budget.**

There are no significant changes made to the FY2020 budget other than an addition of community health expense discussed above.

iii. **Describe any cost saving initiatives proposed in FY20 and their effect on the budget.**
There are continued efforts with the New England Alliance for Health (NEAH) for cost savings through our supply chain as well as leveraged savings through purchase service contracting and service agreement contracting. We also upgraded lighting to more energy efficient lighting during FY19 and anticipate a reduction in utility costs. North Country also added a 1.0 FTE position in FY19 specific to management and compliance with our 340B program to more aggressively pursue better contract pricing for our non-340B drugs and to ensure compliance with the entire 340B program. In addition, as mentioned in the executive summary above, we have seen expense savings in staffing as the result of the athenaHealth implementation and consolidation of Med/Surg and ICU.

iv. **Explain changes in NPR/FPP expected for each payer source**:

a. **Medicare revenue assumptions: Identify and describe**
1) any significant changes to prior year Medicare reimbursement adjustments (*e.g*. settlement adjustments, reclassifications) and their effect on revenues;
There are no significant changes for Medicare reimbursement prior to reimbursement adjustments.

2) any major changes that occurred during FY19 that were not included in the FY20 budget, and
There are no major changes for Medicare that occurred during FY19 that were not included in the FY20 budget.

3) any anticipated revenues related to meaningful use and 340B funds in FY20.
There are no anticipated revenues related to meaningful use for FY2019. Revenues for 340B funds remain constant with those seen in FY2017 and FY2018. The only change seen for 340B revenues is closure of CVS and those revenues being picked up by other area contracted pharmacies.

b. **Medicaid revenue assumptions: Budget for net patient revenues expected from rate changes, utilization and/or changes in services.**
The major change in the Medicaid revenue assumptions for net patient revenue is the shift from historical Medicaid net revenue to Fixed Prospective Payment (FPP) net revenue. The total shift to FPP is $5.2 mil.

c. **Commercial/self-pay/other revenue assumptions: Commercial insurance revenue estimates should include the latest assumptions available to the hospital and any other factors that may explain the change in net patient revenues.** There are no significant changes for Commercial reimbursement other than people opting out of health care due to the penalty being removed from the ACA.

v. Complete Appendix VI, Tables 1A and 1B. If the hospital categorizes revenue differently than as indicated in the tables, provide such categories, including labels and amounts, in the "Other" rows.

B. Expenses:

i. **Explain changes in budgeted FY20 expenses over the approved FY19 budget net expenditure increase and the FY19 full-year projection. If the GMCB rebased the hospital's budget for the purpose of calculating FY20, provide the budgeted changes in expenses for FY20 measured from the hospital's rebased budget.**
The budgeted FY20 net expenditure increase over the approved FY19 net expenditure is $1.99 mil or 2.29%.

ii. **Describe any significant changes made to the FY19 budget (including, but not limited to, changes in costs of labor, supplies, utilization, capital projects) and how they affect the FY20 proposed budget. Provide assumptions about inflation and major program increases.**

- Built in salary increase of 2%
- Increased locum expense based on FY19 actuals
- Increase bad debt expense based on FY19 actuals

iii. **Describe any cost saving initiatives proposed in FY 2019 and their effect on the budget.**

iv. Complete Appendix VI, Table 2. If the hospital categorizes expenses differently than as indicated in the tables, provide such categories, including labels and amounts, in the "Other" rows.

5. *Bad Debt*.

A. **Provide the amount of bad debt carried by the hospital at the close of FY 2017 and FY18, using the table in Appendix VII.**
The amount of bad debt expense at the close of FY17 was $2,086,375 and at the close of FY18 was $2,855,660.

B. **If the hospital contracts with a collection agency, provide the name of the agency.**
   - Balance Healthcare Receivables (BHR)
   - E Management Associates Inc.

C. **In your opinion, explain whether the agency adheres to "patient friendly billing" guidelines. *See* http://www.hfma.org/Content.aspx?id=1033**
   The collection agencies have to adhere to the Consumer Protection Act, the Fair Credit Reporting Act, the Fair Debt Collection Practice Act, HIPAA, the billing and collection requirements of I.R.C. §501 (r)(6) and the standards and requirements of JHACO. North Country has no reason to believe the agency does not adhere to "patient friendly billing" guidelines.

6. ***Operating Margin and Total Margin.* Explain the hospital's Operating Margin and Total Margin in the FY20 proposed budget, including budgeted FY20 Operating Margin and Total Margin changes over the approved FY19 budget and the FY19 full year projection.** The change in our operating margin is approximately $548,000 or 59.9%. The change in our total margin is approximately ($188,000) due to lower unrealized gains.

7. *Charge Request*.
   A. **Provide the hospital's budgeted overall rate/price increase or decrease and describe how the increase or decrease was calculated by payer type, including the calculation of the impact of the change in charge on gross revenue and net patient revenue. Explain how the charge was derived and what assumptions were used in determining the increase or decrease. Complete the table in Appendix VIII.**
   The hospital's overall requested rate increase is 4.25%. This is derived from a rate increase for our physician practices of 0.00% and a rate increase for all hospital based charges of 4.98%. We do not calculate the rate/price increase at the payer level.

   B. **For each payer, if the NPR/FPP budget to budget increase or decrease is different than the overall change in charge—for example, if the requested commercial "ask" differs from the rate/price change—explain why they differ.** There is no difference in rates across our payers.

   C. **In April/May, the GMCB will provide a Charge schedule for reporting the change in charges for each major line of business and the gross and net revenues expected from each payer as a result of the change in charges.**

   D. **In April/May, the GMCB will provide each hospital with a hospital-specific Cost Shift Analysis. Explain how the hospital addressed the cost shift in FY18, especially given the hospital's payer mix.**

8. *FY 2018 overages*. **For those hospitals that received a letter regarding their FY 2018 budget-to-actual overages results, specifically address the issues and requirements outlined in the letter.**
   This question does not apply to North Country Hospital

9. *Capital budget investments*. **Describe the major investments, including projects subject to certificate of need review, that have been budgeted for FY20 and their effect on the FY20 operating budget.**
   There are two major investments that have been budgeted for FY19 that may carry over into FY20.

   There is a budgeted project to renovate our Lab space which includes replacement of the roof and air handling and monitoring capabilities. The capital budget is for $1.5 million for the Lab renovation project.

   The second project is to build out three behavioral health safe rooms in our Emergency department for safer care and better treatment of our mental health patients in the Emergency department. The capital budget for this project is $2.1 million.

   The combined additional effect on the FY20 operating budget is $67,500 which is the total depreciation for both projects.

10. *Technical concerns*.
    Explain any technical concerns or reporting issues the GMCB should examine for possible changes in the future.

There are none.**Salary Information**

1. **Submit a full copy of the hospital's Form 990 (for Actual 2017 or 2018), including the most current version of Schedule H (most likely filed in 2018) that has been submitted to the Internal Revenue Service as part of the hospital organization's Form 990 reporting obligations under Section 501(c)(3) of the Internal Revenue Code. Provide a single copy of these documents.** The current Form 990 and schedule H are the same documents that were submitted last year. The upcoming 990 and Schedule H filing will be available mid-August and will be submitted once available.

2. Complete the Table in Appendix IX. If staff in hospital-owned provider practices are included on a separate Form 990, include salaries for those positions in the table.

3. Submit the hospital's policy or policies on executive, provider, and non-medical staff compensation.

4. Identify:

i. **Outside consultants relied on for benchmarking;**

- Premier Inc – Hospital Labor and productivity benchmarking
- Crimson – Practice productivity benchmarking

ii. **Peer groups to which the hospital benchmarks;**

- NEAH – New England Alliance for Health – Supply Chain
- NNEHCS – Northern New England Health Care Compensation Survey - Staff salary benchmarking – Executive Benchmarking
- Yaffee – Executive Benchmarking
- HHCS – Executive Benchmarking
- MGMA – Physician salary and productivity benchmarking – Executive Benchmarking

iii. **Compensation targets in terms of percentiles for each staff category; and**

- Compensation targets to benchmark are analyzed based on the mid-point of the salary range for each job code and pay grade which is compared to the median compensation of the benchmark. Staff are compensated within the salary range based on years of experience with a maximum years of experience credited for new hires being 10 years.

iv. **The hospital's actual compensation level, compared to target, for each employee group (*e.g*. executive, provider, non-medical staff)**

- Non-Medical Staff - The actual compensation level compared to target and adjusted for years of experience is at target for many positions but are slightly below target for some positions. Supply and demand along with two of the last five years with a 0% increase in salaries contributes to being slightly under target.
- Provider – The actual compensation level compared to target is at target.
- Executive – The target is the median of comparable sized hospitals with the actual salaries being slightly less than target

Organizational Structure

North Country Hospital
Where caring runs deep.

Provide the hospital’s organizational chart including parent companies, subsidiaries, affiliated entities, etc.

North Country Health System