



FY2020 Hospital 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.

Grace Cottage has not included any significant changes in our budget between FY2019 and FY2020. Our FY2020 revenue projections are built primarily on levels experienced thus far in FY2019, with a small increase in volume, based on current trends, budgeted in both the Provider Practice and the Hospital Outpatient areas.

We do not foresee any significant programmatic, staffing, or operational changes in the coming year.

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?

Grace Cottage has not yet signed a contract with OneCare Vermont. We did however, in March 2019, submit a Non-Binding Intent to potentially participate in OneCare's 2020 Risk-Based Programs. We will be doing further assessment before making the final decision as to whether or not we are able to financially absorb the potential risk of participation.

3. *Reconciliation.* Provide a summary income statement that shows a reconciliation between FY 2019 approved budget and FY 2019 full-year projection, showing both positive and negative variances. Explain the variances.

See attached Excel sheet.

4. *Budget-to-budget growth.*

- A. Net Patient Revenue and Fixed Prospective Payments (NPR/FPP):

- i. Explain the budgeted FY 2020 NPR/FPP increase over the approved FY 2019 budget and over the FY 2019 full-year projection. If the GMCB rebased the hospital's budget for the purpose of calculating FY 2020, provide the budgeted increase in NPR/ FPP for FY 2020 measured from the hospital's rebased budget.

Grace Cottage's budgeted FY 2020 NPR is based primarily on providing care for our existing patients, as well as the increased volume of patient demand, when looking at current projections, expected in our Primary Care practice (along with

corresponding ancillary referral needs in the Outpatient departments). Grace Cottage has not budgeted any new service lines, changes in physician practices, or other program changes.

- ii. Describe any significant changes made to the FY 2019 budget (including, but not limited to, changes in anticipated reimbursements, physician acquisitions and certificates of need) and how they affect the FY 2020 proposed budget.

There were no significant changes made to the FY2019 budget.

- iii. Describe any cost saving initiatives proposed in FY 2020 and their effect on the budget.

There are no specific cost saving initiatives proposed in the FY2020 budget, aside from continued emphasis on reducing expenditures wherever possible. We continue to work aggressively to keep the number of Traveler positions at Grace Cottage to a minimum.

- 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; 2) any major changes that occurred during FY 2019 that were not included in the FY 2019 budget, and 3) any anticipated revenues related to meaningful use and 340B funds in FY 2020.

There were no significant changes to prior year Medicare reimbursement adjustments/settlements.

No major changes occurred during FY 2019. The shortfall in projected NPR for FY 2019 is a result of not being at full staffing in the Primary Care practice as of the start of the fiscal year as budgeted. Full staffing was achieved by January, and monthly volumes have been meeting budget, and continued to grow, resulting in the increased volume projections budgeted for FY 2020.

We are nearing the end of our Meaningful Use revenue, with only one provider still being paid in FY2020. Funds from 340B are budgeted to continue at current levels.

- b. Medicaid revenue assumptions: Budget for NPR/FPP expected from rate changes, utilization, and/or changes in services.

Medicaid revenue assumptions were based on current Medicaid patient volume, and assuming no increase in reimbursement.

- 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 NPR/FPP.

Commercial/self-pay revenues were also based on current patient population volume, with minimal inflationary increases.

- v. Complete Appendix VI, Table 1. If the hospital categorizes revenue differently than as indicated in the table, provide such categories, including labels and amounts, in the “Other” rows.

See completed Table.

B. Expenses:

- i. Explain changes in budgeted FY 2020 expenses over the approved FY 2019 budget net expenditure increase and the FY 2019 full-year projection. If the GMCB rebased the hospital’s budget for the purpose of calculating FY 2020, provide the budgeted changes in expenses for FY 2020 measured from the hospital’s rebased budget.

Most significant change in budgeted expenses is in the salary/fringe lines, primarily as a result of 5.10 additional FTEs. The expected growth in the Primary Care practice discussed above accounts for 2.23 of the FTEs (2.03 of which are providers), a 1.0 FTE increase in the Finance Department due to increased reporting demands, as well as small increases in the Nursing Department and Diagnostic Imaging department.

In order to help fill Nursing positions and alleviate the use of “Travelers”, we made a change in our offering of Health insurance benefits to include employees working 20 or more hours per week (the norm among hospitals in Vermont). This accounts for part of the increase in the Fringe Benefits line.

- ii. Describe any significant changes made to the FY 2019 budget (including, but not limited to, changes in costs of labor, supplies, utilization, capital projects) and how they affect the FY 2020 proposed budget. Provide assumptions about inflation and major program increases.

Aside from the FTEs and health insurance changes discussed above, there were no significant changes made between the FY 2019 and FY2020 budgets. There are no major program increases.

- iii. Describe any cost saving initiatives proposed in FY 2020 and their effect on the budget.

See 4.A.iii above.

- 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.

See completed Table.

5. *Bad Debt.*

- A. Provide the amount of bad debt carried by the hospital at the close of FY 2017 and FY 2018, using the table in Appendix VII.

See completed Table.

- B. If the hospital contracts with a collection agency, provide the name of the agency.

Marcam Associates.

- C. In your opinion, explain whether the agency adheres to “patient friendly billing” guidelines.

Marcam follows patient friendly billing by:

- Coordination of information gathering and communication with GCH
- Works hand in hand with our billing department to avoid duplication of contacting patients
- Communication occurs minimally 31 days after the encounter
- Provides feedback and updates throughout the billing cycle
- Provides plain language financial assistance applications and easy to understand communication with patients

6. *Operating Margin and Total Margin.* Explain the hospital’s Operating Margin and Total Margin in the FY 2020 proposed budget, including budgeted FY 2020 Operating Margin and Total Margin changes over the approved FY 2019 budget and the FY 2019 full-year projection.

While Grace Cottage’s goal is to achieve a positive Operating Margin, the net Operating Income budgeted for FY 2020 is a small loss of \$264,982 – with a Total Margin of \$477,642 after accounting for the generous support of our community.

As we continue to work to achieve efficiencies and reduce expenditures wherever possible (our FY 2020 budgeted Other Operating Expense is only a 1.3% increase over FY 2019 budget, despite inflation running higher than that in most expenditure areas), we continue to struggle with reimbursements being below reasonable levels and/or not keeping up with inflation; the large subsidy Grace Cottage makes to the State of Vermont Medicaid program annually is directly responsible for our inability to achieve a positive Operating Margin.

7. *Charge Request.*

- A. Provide the hospital’s budgeted overall charge 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.

Grace Cottage budgeted an overall rate/price increase of 3.20%. This increase results in a roughly 2.00% increase in NPR when taking into account the various types of reimbursement we are paid on, particularly cost-based and fee-schedule.

See completed Table.

- 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 change in overall charge—explain why they differ.

While the budgeted price increase is the same for all payers, the net patient revenue does vary widely both within payer and within type of service, that is Hospital vs. Physician Practice. As a Critical Access Hospital, Medicare reimburses us at 99% (or less) of cost for our hospital services and as a Rural Health Clinic at 98% (or less) of cost for most physician services. Medicaid continues to reimburse at far less than cost for both hospital and physician services. Commercial payers pay at either a fee schedule or a percentage of charges.

- 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.

See completed Table.

- 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 FY 2018, especially given the hospital’s payer mix.

As discussed earlier, Medicaid is our primary source of Cost Shift (\$1.7 million in FY 2018 per the GMCB Cost Shift Analysis). Unfortunately the very generous support by our community (the bulk of our Non-Operating Revenue) goes toward covering Medicaid’s failure to pay adequately rather than toward bettering our facility and ability to provide patient care.

8. *FY 2018 variances.* For those hospitals that received a letter regarding their FY 2018 budget-to-actual variance, specifically address the issues and requirements outlined in the letter.

N/A - Grace Cottage did not receive a letter.

9. *Capital budget investments.* Describe the major investments, including projects subject to certificate of need review, that have been budgeted for FY 2020 and their effect on the FY 2020 operating budget. In addition, describe investments in routine repairs and replacements.

There are no projects subject to certificate of need review budgeted for FY 2020.

The only major expenditure budgeted for FY 2020 is replacement of our existing CT Scanner which is eight years old. Other smaller expenditures include routine repairs and upgrades to our IT infrastructure.

We have included in the third year (2022) of the 4-year submission a very preliminary concept and cost estimate of \$5m for a replacement Physician Office Building. We are still in the very early stages of looking at such a project/concept, and this is more of a place-holder at this point.

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

Grace Cottage does not have any technical concerns or reporting issues to report.