Gifford Medical Center

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FY21 Budget Narrative
July 31, 2020

A. Executive Summary:

Gifford Medical Center (GMC) suffered $5 million of operating losses March through June of FY20 due to the coronavirus pandemic. Social distancing policies and patient caution caused a steep decline in patient volume and revenue. Fortunately, GMC received $5.4 million of covid relief funds, which was enough to offset the lost revenue, allowing a projected 2.5% operating margin in FY20. Although patient volume has recovered in recent weeks, the path forward is extraordinarily uncertain and requires a cautious approach to budgeting. Gifford's FY21 budget includes no programmatic changes and assumes patient volume will return to pre-covid levels. A 4% rate increase is necessary to offset wage and cost inflation.

B. Year Over Year and Reconciliation:

1. Net Patient Revenue and Fixed Prospective Payments (NPR/FPP)

GMC's FY21 budget includes 12.2% more NPR/FPP than FY20 projected. However, FY20 projected is not a valid baseline for comparison due to the covid pandemic. GMC's FY21 budget includes a <u>0.6% reduction</u> in NPR/FPP when compared to its FY20 budget.

The FY21 budget includes a 4% ($4,627,244) rate increase in gross patient charges and 1.6% increase due to patient volume and acuity.

Net Patient Revenue including Fixed Prospective Payments is budgeted to decrease 0.6% due to declining Medicare and Medicaid reimbursement rates.

| | FY18 Actual | FY19 Actual | FY20 Projected | FY21 Budget | FY21 Bud vs FY20 Proj | % | FY20 Budget | FY21 Budget | FY21 Bud vs FY20 Bud | % |
|---|---|---|---|---|---|---|---|---|---|---|
| IP Acute Revenue | 23,877,695 | 22,954,311 | 22,102,126 | 25,520,223 | 3,418,097 | 15.5% | 24,309,233 | 25,520,223 | 1,210,990 | 5.0% |
| IP Swing Revenue | 1,947,193 | 1,672,614 | 1,587,423 | 1,844,493 | 257,069 | 16.2% | 1,714,125 | 1,844,493 | 130,368 | 7.6% |
| OP Hosp Revenue | 65,890,799 | 68,265,892 | 63,668,798 | 74,407,095 | 10,738,297 | 16.9% | 70,661,121 | 74,407,095 | 3,745,974 | 5.3% |
| OP Clinic Revenue | 15,922,827 | 16,281,764 | 15,259,482 | 18,536,545 | 3,277,064 | 21.5% | 17,136,956 | 18,536,545 | 1,399,589 | 8.2% |
| **Gross Patient Revenue** | **107,638,514** | **109,174,581** | **102,617,829** | **120,308,356** | **17,690,527** | **17.2%** | **113,821,435** | **120,308,356** | **6,486,921** | **5.7%** |
| **Less: Total Deductions** | **58,794,343** | **61,065,565** | **59,306,949** | **71,425,208** | **12,118,258** | **20.4%** | **64,240,932** | **71,425,208** | **7,184,276** | **11.2%** |
| **Net Patient Revenue** | **48,844,171** | **48,109,016** | **43,310,880** | **48,883,148** | **5,572,268** | **12.9%** | **49,580,503** | **48,883,148** | **(697,355)** | **-1.4%** |
| Plus: OneCare ACO | 0 | 1,943,080 | 3,115,421 | 3,200,000 | 84,579 | 2.7% | 2,802,480 | 3,200,000 | 397,520 | 14.2% |
| **NPR Including ACO** | **48,844,171** | **50,052,096** | **46,426,301** | **52,083,148** | **5,656,847** | **12.2%** | **52,382,983** | **52,083,148** | **(299,835)** | **-0.6%** |
| Deduction Rate incl ACO | 54.6% | 54.2% | 54.8% | 56.7% | | | 54.0% | 56.7% | | |

2. Other Operating and Non-Operating Revenue

FY20 Other Operating revenue is distorted by covid relief funds. The FY21 budgeted Other Operating Revenue is generally based on the trailing 12 months pre-covid, with the exception of 340B retail pharmacy revenue, which has recently been increasing.

FY20 Non-Operating revenue is distorted by a single $400,000 contribution, which is not expected to repeat in FY21. Investment Income is based on a conservative 2.5% return on investments due to the current uncertainty in the markets.

| | FY18 Actual | FY19 Actual | FY20 Projected | FY21 Budget | FY21 Bud vs FY20 Proj | % | FY20 Budget | FY21 Budget | FY21 Bud vs FY20 Bud | % |
|---|---|---|---|---|---|---|---|---|---|---|
| Covid Relief Funds | 0 | 0 | 5,148,081 | 0 | (5,148,081) | -100.0% | 0 | 0 | 0 | |
| Other Revenue | 603,273 | 895,292 | 727,490 | 905,938 | 178,448 | 24.5% | 496,606 | 905,938 | 409,332 | 82.4% |
| 340B Retail | 19,584 | 38,538 | 50,179 | 46,319 | (3,860) | -7.7% | 32,493 | 46,319 | 13,827 | 42.6% |
| Net Assets Rel for Operations | 119,012 | 131,422 | 99,324 | 140,788 | 41,464 | 41.7% | 0 | 140,788 | 140,788 | |
| Café & Catering | 292,679 | 281,174 | 218,584 | 273,655 | 55,071 | 25.2% | 291,719 | 273,655 | (18,064) | -6.2% |
| Grants | 73,397 | 126,673 | 72,063 | 121,102 | 49,039 | 68.1% | 0 | 121,102 | 121,102 | |
| **Other Operating Revenue** | **1,107,945** | **1,473,098** | **6,315,721** | **1,487,802** | **(4,827,919)** | **-76.4%** | **820,817** | **1,487,802** | **666,984** | **81.3%** |
| | | | | | | | | | | |
| Contributions | 33,676 | 29,189 | 772,030 | 200,000 | (572,030) | -74.1% | 150,321 | 200,000 | 49,679 | 33.0% |
| Sale of Assets | 17,965 | 80,688 | 777 | 0 | (777) | -100.0% | 14,889 | 0 | (14,889) | -100.0% |
| Bank Interest | 16,149 | 26,281 | 25,335 | 25,000 | (335) | -1.3% | 0 | 25,000 | 25,000 | |
| Investment Income | 2,088,002 | 2,921,319 | 1,524,352 | 725,000 | (799,352) | -52.4% | 684,247 | 725,000 | 40,753 | 6.0% |
| **Non-Operating Revenue** | **2,155,792** | **3,057,478** | **2,322,495** | **950,000** | **(1,372,494)** | **-59.1%** | **849,457** | **950,000** | **100,543** | **11.8%** |

3. Operating Expenses

It is extremely difficult to budget FY21 operating expenses because the FY20 projected expenses do not provide a stable baseline, particularly in the variable cost areas of supplies and drugs. Also, salary expenses in FY20 were decreased by the voluntary furlough of approximately 12% of the workforce during the pandemic.

GMC's FY21 revenue budget is based on the return of patient volume to pre-covid levels. Similarly, expense projections are based on actual pre-covid expenses plus inflation. Salaries assume the same FTEs as pre-covid plus a 3% average wage increase. Supplies and Drugs assume 3% inflation. Purchased Services and Other expenses assume 2% inflation.

FY21 total operating expenses are budgeted to be 1.8% more than FY20 budget.

| | FY18 Actual | FY19 Actual | FY20 Projected | FY21 Budget | FY21 Bud vs FY20 Proj | % | FY20 Budget | FY21 Budget | FY21 Bud vs FY20 Bud | % |
|---|---|---|---|---|---|---|---|---|---|---|
| Salaries Staff | 17,309,504 | 16,983,788 | 16,346,541 | 16,992,125 | 645,584 | 3.9% | 17,124,441 | 16,992,125 | (132,316) | -0.8% |
| Salaries Providers | 7,033,573 | 6,938,303 | 6,996,004 | 7,297,995 | 301,990 | 4.3% | 7,444,404 | 7,297,995 | (146,409) | -2.0% |
| Benefits | 7,158,803 | 6,559,871 | 6,118,271 | 6,244,123 | 125,852 | 2.1% | 6,676,092 | 6,244,123 | (431,969) | -6.5% |
| Salaries Contracted | 1,403,053 | 944,899 | 1,743,204 | 1,385,277 | (357,928) | -20.5% | 786,980 | 1,385,277 | 598,296 | 76.0% |
| Medical Supplies | 2,694,011 | 2,854,402 | 2,992,413 | 3,292,595 | 300,182 | 10.0% | 2,876,519 | 3,292,595 | 416,076 | 14.5% |
| Drugs | 1,293,786 | 1,210,522 | 1,700,011 | 1,332,521 | (367,489) | -21.6% | 1,159,933 | 1,332,521 | 172,588 | 14.9% |
| Other Supplies | 623,197 | 613,112 | 547,085 | 638,885 | 91,800 | 16.8% | 635,248 | 638,885 | 3,637 | 0.6% |
| Purchased Services | 7,179,808 | 6,675,765 | 6,542,441 | 6,896,230 | 353,789 | 5.4% | 6,486,065 | 6,896,230 | 410,165 | 6.3% |
| Other Expenses | 4,080,549 | 2,961,931 | 2,389,184 | 2,281,385 | (107,799) | -4.5% | 2,331,317 | 2,281,385 | (49,932) | -2.1% |
| Taxes | 3,225,185 | 2,893,335 | 2,960,397 | 3,067,436 | 107,040 | 3.6% | 2,952,191 | 3,067,436 | 115,245 | 3.9% |
| Interest | 777,968 | 974,655 | 736,972 | 733,168 | (3,804) | -0.5% | 793,741 | 733,168 | (60,573) | -7.6% |
| Depreciation | 2,542,124 | 2,328,318 | 2,342,922 | 2,422,439 | 79,517 | 3.4% | 2,396,105 | 2,422,439 | 26,334 | 1.1% |
| **Total Operating Expense** | **55,321,562** | **51,938,901** | **51,415,445** | **52,584,178** | **1,168,733** | **2.3%** | **51,663,036** | **52,584,178** | **921,141** | **1.8%** |
| | | | | | | | | | | |
| **FTE** | 488.7 | 475.9 | 447.3 | 457.5 | 10.2 | 2.3% | 466.6 | 457.5 | (9.1) | -2.0% |

4. Operating Margin and Total Margin

After two fiscal years of operating losses, GMC is projecting to end FY20 with a 2.5% operating margin, slightly lower than the FY20 budget of 2.9%. GMC was profitable prior to the pandemic and will break even over the remainder of FY20 thanks to covid relief funds. Assuming patient volume returns to pre-covid levels, the budget for FY21 projects an operating margin of 1.8%.

GMC is projecting a total margin of 6.6% in FY20, due to better than expected investment income and contributions, although neither can be expected to repeat in FY21. GMC has $29 million of investments, and the FY21 budget assumes a modest dividend return of 2.5% which would generate $725,000 of investment income. The FY21 budget includes a 3.6% total margin.

| | FY18 Actual | FY19 Actual | FY20 Projected | FY21 Budget | FY21 Bud vs FY20 Proj | % | FY20 Budget | FY21 Budget | FY21 Bud vs FY20 Bud | % |
|---|---|---|---|---|---|---|---|---|---|---|
| **NPR Including ACO** | **48,844,171** | **50,052,096** | **46,426,301** | **52,083,148** | **5,656,847** | **12.2%** | **52,382,983** | **52,083,148** | **(299,835)** | **-0.6%** |
| **Other Operating Revenue** | **1,107,945** | **1,473,098** | **6,315,721** | **1,487,802** | **(4,827,919)** | **-76.4%** | **820,817** | **1,487,802** | **666,984** | **81.3%** |
| **Total Revenue** | **49,952,117** | **51,525,194** | **52,742,022** | **53,570,950** | **828,928** | **1.6%** | **53,203,801** | **53,570,950** | **367,149** | **0.7%** |
| | | | | | | | | | | |
| **Total Operating Expense** | **55,321,562** | **51,938,901** | **51,415,445** | **52,584,178** | **1,168,733** | **2.3%** | **51,663,036** | **52,584,178** | **921,141** | **1.8%** |
| **Operating Income** | **(5,369,446)** | **(413,707)** | **1,326,577** | **986,772** | **(339,805)** | **-25.6%** | **1,540,764** | **986,772** | **(553,992)** | **-36.0%** |
| | | | | | | | | | | |
| **Non-Operating Revenue** | **2,155,792** | **3,057,478** | **2,322,495** | **950,000** | **(1,372,495)** | **-59.1%** | **849,457** | **950,000** | **100,543** | **11.8%** |
| | | | | | | | | | | |
| **Total Income** | **(3,213,654)** | **2,643,771** | **3,649,072** | **1,936,772** | **(1,712,300)** | **-46.9%** | **2,390,221** | **1,936,772** | **(453,449)** | **-19.0%** |
| | | | | | | | | | | |
| **Operating Margin** | **-10.7%** | **-0.8%** | **2.5%** | **1.8%** | | | **2.9%** | **1.8%** | | |
| **Total Margin** | **-6.2%** | **4.8%** | **6.6%** | **3.6%** | | | **4.4%** | **3.6%** | | |

C. Change in Charge Request:
GMC's FY21 Budget includes a 4% increase in rates. The charge increase is the final step in developing the budget. After budgeting patient volume and the expenses necessary to service that volume, a 4% charge increase was necessary to provide a reasonable operating margin. The increase in net revenue from the 4% rate increase is estimated to be $2,009,964 and the budgeted operating income is $986,772. Each 1% increase in rates generates $502,491 of net patient revenue.

GMC is a Critical Access Hospital, which is reimbursed by Medicare largely based on actual costs. Under Medicare's reimbursement method GMC will not yield the full effect of the 4% rate increase.

Commercial payers generally reimburse GMC based on a discount off charges, so a 4% increase in rates yields a 2.8% increase in reimbursement.

D. Service Line Adjustments:
Due to the extraordinarily uncertain healthcare environment, GMC is not planning to add or reduce service lines in FY21.

E. Risk and Opportunities:
The Covid-19 pandemic presents an extraordinary level of risk and uncertainty as we prepare for FY21. Gifford Medical Center (GMC) has established the following goals during the pandemic period.

- Provide appropriate access to care, and communication for our community
- Maintain a strong and well-supported workforce
- Retain our financial health

Our opportunities in FY 2021 exist because we met these goals over the first five months of the pandemic. Our risks are related to a resurgence in the Covid-19 virus in our communities with the vast potential to disrupt the health of our community, our workforce, and our ability to provide access to care.

Our FY21 budget assumes we avoid disruptions in care, are able to adequately staff our services, and maintain financial health. GMC has begun a short-term strategic planning process in which we are evaluating our pandemic experience to date and determining how we can utilize those experiences to withstand similar future disruptions. This process will guide our efforts over the coming months, while also seeding our longer-term strategic planning process, which we anticipate conducting during calendar year 2021.

F. OneCare Vermont participation:
GMC is currently participating in the VT Medicaid ACO and the MVP shared savings program. At the present time, we feel it is too risky to expand into other OneCare Vermont programs. We will consider expanding our participation after the healthcare environment stabilizes.

G. Capital Investment Cycle:
GMC's FY21 budget includes a $4 million capital budget. Due to the uncertain environment, capital expenditures will be restricted to routine replacement of equipment and mechanical systems. No major capital expenditures are planned.