



FY2021 Hospital Budget Narrative

- A. *Executive Summary.* Provide a summary of the hospital's FY21 budget submission, including any information the GMCB should know about programmatic changes such as telemedicine, as well as staffing and operational changes and the overall impact of COVID-19. Please include COVID-19 information on the relief funds received from state (e.g. stabilization grant funds) or federal government (e.g. CARES ACT, rural stimulus grant funds), including the amounts, how the hospital has and or plans to use the funding, and if there were any requirements related to the funding (e.g. a prohibition on balance billing uninsured patients).

Grace Cottage, along with all other hospitals and business in Vermont and throughout the country, suffered significant losses during March, April, May and into June. We were fortunate to have received relief fund sufficient to cover those losses.

As soon as the country was "shutdown" in March, we began looking at potential sources of cash to help us remain open and available to our community throughout the shutdown. We applied for and received Medicare Accelerated Payments of \$2.98m, a Paycheck Protection Program loan of \$2.97m, and received a total of \$4.28m in CARES stimulus grant funds.

All of the Medicare Accelerated Payments amount is still in our bank account and will be repaid to Medicare. We will be applying soon for forgiveness of a large portion of the Paycheck Protection Program loan, with the balance still in our bank account and that will also be repaid. As of now we have not used all of our CARES stimulus grant funds.

Because of these funding sources, we were able to keep our entire workforce fully employed throughout the shutdown, providing them with the security of paychecks and benefits when they needed them most.

Volumes have returned, or are approaching, pre-COVID shutdown volumes, and while each day is uncertain, and likely will be for most of FY21 as well, the FY21 budget was based on a projection of the first five months of FY2020 pre-COVID volumes, with no additional growth beyond that expected.

- B. *YEAR-OVER-YEAR AND RECONCILIATION.* Explain each component of the budgeted FY21 based on the prompts below, please explain the hospital's budget-to-budget growth (or decline), in the context of its FY20 projection, including the COVID-19 assumptions.

1. Net Patient Revenue and Fixed Prospective Payments (NPR/FPP)
 - A comparison of the FY20 projection to FY20 budget is not of course a good comparison due to the pandemic. While it shows a 9.2% shortfall, we were on track, prior to March, to meet our budget for the fiscal year. FY21 budget/volumes are based on those volumes experienced in the first five months of the fiscal year prior to the pandemic, with no additional growth beyond that.
2. Other Operating and Non-Operating Revenue
 - The big change in Other Operating Revenue between FY20 budget, FY20 projection, and FY21 budget are the relief funds identified above.
 - Non-Operating Revenue continues to be a result of the strong support of our community and their desire to keep Grace Cottage alive and here for them when they need us. This was even further shown with the outpouring of gifts during the pandemic shutdown.
3. Operating Expenses
 - Operating Expenses for FY20 projection are slightly under budget as a result of the drop in volume during the shutdown reducing some variable expenses. FY21 budget is a 2.6% increase over FY20 budget.
4. Operating Margin and Total Margin
 - Both FY20 projection and FY21 budget are shown to be a break-even Operating Margin due to the revenue recognition of relief funds. Total Margin for FY20 projection of 4.3% and FY21 budget of 3.8% are the result of the Non-Operating Revenue from our community discussed above.

C. CHANGE IN CHARGE REQUEST.

1. Explain how the hospital's overall change-in-charge request in gross revenue was derived and what assumptions, including those related to COVID-19, were used in quantifying the requested increase/decrease.

Grace Cottage's FY21 budget includes a 3.2% gross charge increase. This was the minimum amount needed to cover inflationary increases in operating expenses.

As discussed earlier, we were fortunate, due to receipt of relief funds, not to have to request a larger rate increase as a result of COVID-19.

2. Describe how the change-in-charge request affects each payer type (Medicare, Medicaid, Commercial). Explain the underlying assumptions and methodology used to make that allocation. Explain how the change-in-charge request affects bad debt and free care. Please explain your government payer reimbursement assumptions and how they affect your non-government-payer change-in-charge request and underlying assumptions. (See 18 V.S.A. § 9456(b)(9))

- Medicare: As a CAH/RHC, almost all services are reimbursed on a cost basis, thus the change-in-charge has little affect.
- Medicaid: As services are paid primarily on a fee schedule, the change-in-charge has little affect as long as our charges are higher than the fee schedule.
- Commercial: Services are paid on either a percent of charges basis or a fee schedule. As with Medicaid, it has little affect on the fee schedule reimbursements as long as the charges are higher than the fee schedule. For the percent of charges reimbursement, net benefit of the change-in-charge varies depending on the reimbursement contracts with the individual payers.
- Free Care/Bad Debt: The change-in-charge would increase both Free Care and Bad Debt write-offs by the gross amount.

3. Please indicate the dollar value of 1% NPR/FPP FY21 overall change in charge.

Each 1% change in charge results in approximately \$198,565.

D. *SERVICE LINE ADJUSTMENTS.* Please explain if the hospital plans to add or reduce service lines.

Grace Cottage has no plans to add or reduce service lines.

E. *RISKS AND OPPORTUNITIES.* Please discuss the hospital's risks and opportunities in FY21. Recognizing the risks and opportunities in the current environment, please explain how the FY21 budget proposal supports strategies for addressing these issues.

Grace Cottage recognizes that our biggest risk in FY21 is the potential for additional COVID-19 outbreaks and/or shutdowns. Our budget was built on the presumption there would not be any, however we are well aware there very well could be. We are fortunate to still have COVID-19 relief funds on the books that would help us through such interruptions.

Opportunities for Grace Cottage continue to be to focus on providing and expanding access to Primary Care. Based on need in our community, we have added additional Pediatric coverage to our Primary Care practice starting in August.

F. *ONECARE VERMONT PARTICIPATION.* Is the hospital participating in OneCare Vermont's provider network in CY 2021 and, if so, please state what payer programs? If the hospital is not planning to participate in all of OneCare's payer programs, please explain why.

Grace Cottage is not currently participating in OneCare Vermont's provider network. We continue to remain open to the concept of participating, however do not feel, particularly in the current environment, that it would be a prudent business move based on the potential financial risk of participation and its negative affect our bottom line.

G. *CAPITAL INVESTMENT CYCLE.* List the hospital's capital investments and describe the investment cycle and how it relates to the hospital's overall strategic plan, including the challenges facing

Vermont's hospitals in response to the COVID-19 pandemic (e.g., pauses in capital improvement projects). In accordance with 18 V.S.A. § 9435(f), "routine replacements of nonmedical equipment and fixtures, including furnaces, boilers, refrigeration units, kitchen equipment, heating and cooling units, and similar items" that are not subject to Certificate of Need review must be included in a hospital's proposed budget. The Board will seek additional, more detailed information about anticipated capital improvement projects when FY21 budget data is inputted into Adaptive.

FY20 capital investments include replacement of our CT Unit, EKG Machines, Vital Sign Monitors, Patient Beds, Nurse Call System, a Lab Analyzer, and upgrades to the Hospital Security/Surveillance Equipment.

FY21 capital investment plans include replacement/upgrade of our Pyxis MedStations, an IT project of a complete upgrade/refresh of our Wireless and Physical Network for connectivity, and some smaller equipment replacements.

Grace Cottage has no approved or planned CON projects.