



NORTH COUNTRY HOSPITAL - BUDGET 2021 – NARRATIVE

A. Executive Summary

Prior to onset of Covid 19 North Country Hospital's operating margin was ahead of budget year to date by \$390,000.

Faced with creating a budget in very uncertain times with limited time and resources we made the decision to build a budget based on Pre Covid year to date February 2020 actuals.

The projected 2020 numbers are based on actual year to date as of June 2020 and budgeted amount for the remaining quarter. Beginning in June we have seen revenues return or exceed budgeted levels and expenses follow proportionately.

Covid 19 effected our projected 2020 performance by decreased net revenue, decreased salaries due to furloughs, decreased supply expenses related to volume, and other miscellaneous expenses.

North Country Hospital has received to date \$6,594,700 from the CARES Act and rural stimulus funds. A portion of this has been used to offset lost revenue from the end of March, April and May, as well as Covid 19 related expenses incurred during this timeframe. We also have received \$194,721 from the state in the form of Medicaid retainer dollars.

We have also received several specific purpose grants from the State of Vermont and the federal government which we are working on using in the best possible way to benefit our patients. We are looking at new PPE, in house testing and a new solution to the temporary Covid testing site.

Other information regarding the overall impact of Covid 19 will be included in the Risks and Opportunities section of this narrative.

B. Year-over year and reconciliation

1. Net patient revenue and fixed prospective payments
Budget 20 compared to budget 21 the hospitals net patient revenue in total decreased by 1%. The fixed prospective payment increased \$785,662 because of an expanded Medicaid population for the ACO. Regarding revenue projections, we started with the gross revenue as of 02/29/20. We made the service line adjustments as outline in D and applied a rate increase of 3.6% overall. The net percent reimbursement used was consistent with actual 2019 and year to date Budget 21. In budget 2021 there is no adjustments to gross or net revenue because of Covid-19.
2. Other operating and Non-operating revenue
Other operating revenue increase from budget 20 to budget 21 is 340B income, there have been 2 pharmacies added to the 340B pharmacies benefit.

Non-operating revenue variance is because we did not budget for unrealized gains in 2021 due to the uncertainty of the market.

3. Operating expenses

Budget 2020 to budget 2021 total expenses increased by only .20%. This is with inflationary increases. Salaries and fringes increased by 6% reflecting raises and inflation on benefits. The salary budget for 2021 also includes 2.00 ftes for door screeners due to Covid 19. Salary and benefits were also changed based on the service line adjustments discussed in D. The other operating expenses are down for Budget 21 by 9.50%.

4. Operating Margin and Total Margin

The operating margin has been budgeted to increase \$80,844 over last year's budget. The total margin decreased substantial due to not budgeting unrealized gains.

C. Change in charge request

1 - North Country Hospital has requested a 3.60% overall rate increase.

The charge request was derived by requesting an amount that would allow us to have approximately the same operating margin - 1.70% as in the prior budget at 1.60%. The only effect Covid 19 had on this request is the expense increase in salaries as mentioned above.

2 – Change in charge request effect on payers

Hospital:

Medicare – Inpatient – an increase in charge does net any new reimbursement for Medicare inpatient due to the fact it is paid on a per diem rate.

Medicare – Outpatient – the increase in charge % directly effects the net reimbursement due to the reimbursement being percent of charge.

Medicaid – Inpatient and Outpatient – an increase in charge does not net any new reimbursement due to the fact inpatients are reimbursed at a per diem rate and outpatient, is based on a fees schedule or encounter rate which don't change

Commercial – Inpatient and Outpatient are usually a percent of charge therefore an increase in charges results in an increase in net revenue.

Bad debt and Free care are calculated as a % of gross revenue based on historical data.

3 – Change in charge

1% in gross charges increases nets approximately \$526,340

D. Service Line Adjustments

The following service line adjustments were made from Budget 2020:

Operating Room – revenue was decreased due to the discontinuation of Ophthalmology services in this area. Neurology practice was closed in April 2020. Urology practice was added in November 2019. Cardiology services were increased.

G. Capital Investment Cycle

The capital budget for FY 2021 is \$3,600,000 of which \$1,132,433 is capital that would have been spent in FY 2020 if we had not had to freeze capital due to cash flow issues caused by the pandemic. The remaining \$2,467,567 is new capital slated for purchase in FY 2021.

Projects were put on hold due to the pandemic. Several small projects were delayed, slated to be completed in April / May time frame and are now just being completed. Planned renovations to the lab space have been put on hold.