

Northeastern Vermont Regional Hospital
 Budget Narrative
 July 31, 2020

A. **EXECUTIVE SUMMARY**

Needless to say fiscal 2020 was a challenging year financially and operationally for Northeastern Vermont Regional Hospital (NVRH) due to impact of the Covid-19 pandemic. Despite these challenges, the pandemic also provided an opportunity to demonstrate NVRH’s resiliency and role as a strong and dependable community leader. It also enabled us to strengthen collaborative relationships with community partners, and to identify and implement operational efficiencies in certain areas. Below is a snapshot of the FY20 financial results, which will be discussed in more detail in another section of this narrative.

NVRH	
FY 2020	
Projected Operating Margin	
Description	Amount
Loss from Operations Excluding "Stimulus" Support	\$ (8,376,500)
Stimulus Support Realized (OOR)	6,412,000
Medicaid Retainer Program Support Realized (OOR)	780,000
Net Operating Loss From Operations	<u>\$ (1,184,500)</u>

We anticipate that fiscal 2021 will be a bounce-back year for NVRH. An operating margin of \$1,944,700, which equals 2% of operating revenue, has been budgeted. Key budget assumptions include:

- No significant interruption of services due to a new surge in Covid-19 cases
- Patient activity will return to pre-pandemic levels
- Approval for an average rate increase of 3.9%
- No significant change in the number of providers
- Continued success in reducing avoidable ED visits
- Most major joint replacement surgeries will continue to be outpatient cases

When the pandemic hit full force in mid-March NVRH adopted several operational changes in order to continue treating patients while keeping them, visitors and staff safe. Many of those operational changes will continue into fiscal 2021. These include:

- Use of telehealth visits
- Increased use of Personal Protection Equipment (PPE)
- Limiting number of available entry points to the hospital and hiring staff to monitor temperatures of all patients and visitors and screening them for Covid-19 risk
- Operating a virus testing site outside of the main hospital building to limit exposing patients and staff to potentially Covid-positive members of the community being tested

During fiscal 2020 NVRH received the following State and Federal Support to partially cover lost revenues and increased operational costs resulting from the pandemic, including:

- \$1.7 million from Federal CARES Act
- \$4.8 million rural stimulus grant
- \$.8 million from Medicaid Retainer Program

This support totals \$7.3 million. During FY 20 NVRH will use most of this support to partially cover lost income and increased expenses related to the pandemic. NVRH will apply for State stabilization grant funds as well. The dollar amount, timing and specific planned use of grant funds is still being determined. We are proceeding cautiously to avoid any duplication of funding. NVRH will also explore FEMA funds to recoup any pandemic related expenses that don't get covered by these other grant/stimulus funds.

B. YEAR-OVER-YEAR RECONCILIATION

Table 1, below, is a bridge from fiscal year 2020 budget to fiscal 2020 projected and from fiscal 2020 projected to fiscal 2021 budget. The table includes an explanation of the key drivers of revenue and expense changes. Additional information is provided below just after the table.

TABLE 1

	NPR /		Total	Operating	Operating		Total Margin
	FPP	OOR	Revenue	Expenses	Margin	NOR	
<i>FY 2020 Budget To FY 2020 Projected</i>							
FY 2020 Approved Budget	87,253,800	4,668,400	91,922,200	90,308,900	1,613,300	0	1,613,300
Covid Related Volume Decline	(7,167,400)		(7,167,400)	(530,300)	(6,637,100)	0	(6,637,100)
Expenses Added due to Covid			0	722,000	(722,000)	0	(722,000)
Other Utilization Changes (Incl. Ophthal)	(1,486,400)	(432,900)	(1,919,300)	201,000	(2,120,300)	0	(2,120,300)
Change Medicaid FFS & FPP Estimate	(314,000)		(314,000)		(314,000)	0	(314,000)
Change in Bad Debts/Free Care	1,308,600		1,308,600		1,308,600	0	1,308,600
Shift in Payer Mix	(755,000)		(755,000)		(755,000)	0	(755,000)
Covid Impact on 340B/Reference Lab		(400,000)	(400,000)		(400,000)	0	(400,000)
Cost of Early Retirement Program			0	350,000	(350,000)	0	(350,000)
Stimulus Support		6,412,000	6,412,000		6,412,000	0	6,412,000
Medicaid Retainer Program		780,000	780,000		780,000	0	780,000
FY2020 Projected	78,839,600	11,027,500	89,867,100	91,051,600	(1,184,500)	0	(1,184,500)
<i>FY 2020 Projected To FY 2021 Budget</i>							
Back out FY20 Covid Support		(7,192,900)	(7,192,900)		(7,192,900)	0	(7,192,900)
Add FY 21 Stimulus Support		597,400	597,400		597,400	0	597,400
NPR Change from Rate Increase	1,473,000		1,473,000		1,473,000		
Acuity (Infusion Therapy)	475,000		475,000	475,000	0		
Pre-Covid Volume Recaptured	6,489,400		6,489,400	480,300	6,009,100		
Other Utilization Changes (Incl. Ophthal)	3,248,300		3,248,300	200,000	3,048,300		
Increase in 340B/Reference Lab		475,400	475,400		475,400	0	475,400
Incremental Covid Related Expense Change			0	411,100	(411,100)	0	(411,100)
Identified Cost Savings				(625,000)	625,000		
Salary and General Inflation Increases			0	1,700,000	(1,700,000)	0	(1,700,000)
Programatic Change in Hospitalist Services				110,000	(110,000)		
Increase in Traveler Expense				285,000	(285,000)		
MRI Lease and Service				250,000	(250,000)		
Depreciation Expense Decrease				(850,000)	850,000		
FY 21 Budget	90,525,300	4,907,400	95,432,700	93,488,000	1,944,700	0	1,944,700

On March 18, 2020 NVRH cancelled all elective surgeries. The number of visits to our provider practices and to the Emergency Department dropped precipitously. The volume declined continued well into the month of May, 2020. At the same time volume and revenues were falling expenses rose as we spent whatever was necessary to procure Personal Protection Equipment (PPE), staff hospital entrances to monitor employees, patients and visitors and start testing the community for the Covid-19 virus. A tent was made available to NVRH from the State and NVRH immediately set up a testing site. Our Day Surgery area was turned into a temporary Respiratory Intensive Care Unit. The effect on revenues and expenses included:

- \$7,800,000 decrease in NPR (CAH status prevented this from being worse!)
- \$722,000 expense increase
- \$400,000 "hit" to Other Operating Revenue (340B/Reference Lab)

To date, NVRH has received \$7,292,000 in "stimulus: support to partially offset the effect of these revenue and expense hits. NVRH is pursuing other grants to offset lost revenues and increased costs related to the pandemic.

Most of the items listed in Table 1 are self-explanatory. One noteworthy exception is the \$676,000 infusion therapy acuity change that started in fiscal 2020. This is the annual cost of one drug used for a small number of infusion patients. Unfortunately, this drug is not currently eligible for 340B pricing for Critical Access Hospitals.'

C. **CHANGE IN CHARGE REQUEST**

The 3.9% charge increase being requested was determined by starting with targeted operating margin and identifying the gap between that margin and pre-rate increase margin. From that calculus it was determined a 3.9% increase was required. We then isolated the rate increase required for Covid-related cost increases and the increase needed for "normal" operations. See Table 2:

Table 2

NPR Increase Necessary to Cover:	Amount	% Increase
"Normal" Revenue/Expense Gap	\$ 761,700	2.0%
Covid Related Revenue/Expense Gap:		
- Staff Monitors at Entrances	114,400	0.3%
- Staff for Covid Testing Tent	376,200	1.0%
- Increased PPE Cost	200,000	0.5%
Total	\$ 1,452,300	3.9%

The requested charge increase effect on each payer, bad debts and free care is depicted in Table 3. The dollar change in NPR/FPP per 1% increase in charges is also included in Table 3.

Table 3

Description	Total	Medicare	Medicaid-VT	Medicaid-OOS	Commercial-Major	Self Pay	Workers Comp	Bad Debt / Free Care
Gross Revenue Affect of Charge Increase	\$ 7,378,400	\$ 3,345,131	\$ 1,468,828	\$ 15,927	\$ 2,322,048	\$ 159,809	\$ 66,657	\$ -
NPR Affect of Charge Increase								
Commercial Rate	\$1,452,300	\$0	\$0	\$0	\$1,591,000	\$88,000	\$50,000	\$ (276,700)
Rate - Non Commercial	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
NPR Increase Per 1% Charge increase								
Commercial Impact of 4% Increase	\$1,452,300							
Rate Increase NPR per 1%	\$ 374,300							

D. **SERVICE LINE ADJUSTMENTS**

We believe the services NVRH offers are necessary and appropriate for our patients and the communities we serve. Therefore, NVRH does not have any plans, at this time, to add or reduce service lines. We will inform the GMCB immediately should these plans change during the fiscal year.

E. **RISKS AND OPPORTUNITIES**

NVRH has identified several risks that may negatively affect the fiscal 2021 budget outcomes as well as several opportunities that may enhance outcomes. Following is list of those risks and opportunities. As requested by the budget guidelines we have also identified, where possible, how the risks and opportunities are addressed in the budget (*shown in italics*)

RISKS:

- Meeting staffing needs while supporting our workforce that is balancing childcare, teaching at home and work schedules
 - *Includes funding for “travelers” staff that may be needed to supplement NVRH staff*
- Another surge in Covid requiring shutdown of services
 - *Includes salary and non-salary expenses for virus testing facility to quickly identify member of the community that are Covid-19 positive*
 - *Includes salary and non-salary expenses for screening and monitoring all patients and visitors that may be at risk for carrying the virus before entering the hospital*
- Inability to recruit or retain key staff
 - There were already 19 nursing position vacancies before pandemic
 - Travel restrictions inhibit our ability to recruit health care workers
 - *Includes salary increases to remain competitive in labor market*
 - *Includes competitive fringe benefits including re-instated loan repayment program*
 - *Include recruitment related expenses*
- OCV Medicaid program (and potentially an opportunity)
 - *Includes revenues, expenses and risk associated for the OCV Medicaid risk program*
 - *FY 2020 results may be better than estimated resulting in favorable budget adjustment in FY 2021 (opportunity)*
- Insufficient capital to fund much-needed and overdue ED facility improvement project
 - *Scaled back capital spending in FY 20 and FY 21*
 - *Secured 0% financing for information system infrastructure replacement project*
- Long term economic impact on the communities we serve
 - *Includes financial support for NEK Prosper, Caledonia and S. Essex Accountable Health Community, and its Financially Secure Collaborative Action Network*
 - *Includes an anticipated increase in Medicaid payer mix*
- De-stabilization of our partner organizations due to pandemic, resulting in greater social/mental health needs
- Inability of supply chain to procure sufficient quantity of PPE to safely treat patients
 - *Includes anticipated future price increases*
 - *Includes costs of alternative PPE products where applicable*

OPPORTUNITIES:

- Continue focus on identifying operational efficiencies and supply chain management to drive down costs
 - *Includes reduction of 10 FTEs*
 - *Includes savings for switching to primary vendor products and 340B pricing*
- Explore collaborative with new and existing partners to meet community needs
 - *Discussions underway. May result in budget adjustment for practice transfer*
- Take advantage of alternative ways to deliver services, where appropriate (e.g. Telehealth)
 - *Provider practice visits include telehealth visits*
- Pandemic enhanced image in the community as strong organization that is able to respond to most any challenge. We plan to leverage this goodwill to further develop our already-strong community support, in efforts to improve the health of the community.
- Partner with NVU and VTC to train future health care workers
 - *Includes ongoing support to college programs*
- Better meet needs of mental health and SUD population with focus on prevention, intervention and recovery
- Leveraging OCV data and improving analytic capabilities to drive care coordination and patient risk assessment
- Capitalizing on value based payment flexibility to be innovative in the service industry

F. ONECARE VERMONT PARTICIPATION

NVRH has participated in OneCare Vermont's Medicaid and MVP QHP programs. The level of financial risk associated with the other OCV programs jeopardizes the financial health of Critical Access Hospitals, in our opinion.

The amount budgeted for ACO infrastructure fees is \$145,000 for both FY20 and FY 21. The amount NVRH budgeted in FY21 for maximum ACO risk is \$600,000

G. CAPITAL INVESTMENT CYCLE

By April 1, 2020 NVRH suspended all non-emergent capital spending that was unrelated to Covid-related operational needs. This step was taken to preserve cash as volumes slowed down considerably. For fiscal 2021, capital spending was scaled back to \$2.9 million. In a typical year NVRH budgets approximately \$4.5 million for routine capital needs. These spending adjustments will push the capital investment cycle back for approximately 1 ½ years, which will in turn push back the planned ED expansion and renovation project back by 1 ½ years.

The ED project is a significant piece of NVRH's 1-5 year strategic planning process. The existing ED, if constructed today would require an additional 2,200 square feet just to comply with current building standards. The NVRH ED is too small for the volume and acuity of patients. Therefore, the department needs to expand to better meet the needs of the community, especially those with acute and chronic mental health conditions. Currently, we are planning to break ground sometime in fiscal 2024, after obtaining a Certificate of Need from the GMCB.

H. **RESPONSE TO HCA QUESTIONS**

1. **Commercial Rate**

In the table provided below, please provide by commercial payer (BCBSVT, TVHP, MVP, Cigna, and Other):

- a. The rate change you implemented in FY2020 and budgeted for FY2021.
- b. The budgeted FY2021 net patient revenue (NPR) and proposed NPR change from FY2020.
- c. The average ratio of the payer’s reimbursement rate to Medicare’s reimbursement rate.

Response: NVRH groups all commercial insurance payers into one group. The requested information for that commercial group is presented in Table 4 below:

Table 4

Description	All Non Government Payers
FY20 Rate Change Actual	3.0%
FY 21 Rate Change Budget	3.9%
FY 20 NPR	38,687,150
FY 21 NPR	39,517,200
% Change NPR	2.1%
Avg Ratio Payment Rate to Medicare Payment Rate	160%

2. **Hospital Financial Assistance during COVID-19**

- a. How have you changed your official or unofficial patient financial assistance policies and/or procedures during COVID-19?
RESPONSE: *NVRH has not changed its patient financial assistance policies or procedures during the Covid-19 period. NVRH has a number patients making monthly payments on their accounts. Several patients have requested forgoing those payments for a period of time during the pandemic. NVRH staff approved all of these requests.*
- b. How have you handled patient collections during COVID-19?
 - i. How many patients had bills sent to collection agencies during each of the first three quarters of FY2020?
 - Q1 2,535
 - Q2 2,312
 - Q3 2,400
 - ii. How many patients currently have bills in collections? How does this number compare to a normal year for your hospital?

RESPONSE: Currently there are 9,944 patient accounts placed with a collection agency. This number is slightly higher than normal.

3. **Provider Recruitment**

- a. How (if at all) have you leveraged the federal J-1 visa waiver program in your recruitment of health care providers?
RESPONSE: *In late-July NVRH has made an offer to a J-1 visa waiver program physician. They have not yet responded to our offer. If our offer is accepted this candidate would start next July*