SPRINGFIELD HOSPITAL
FY2020 BUDGET NARRATIVE

1. Executive Summary Overview

In FY 2021 Springfield Hospital plans to continue to improve areas that are currently not meeting expectations in FY20. A successful exit from the Chapter 11 reorganization process is critical to our efforts to being a sustainable critical access hospital providing quality health care to this rural community. Access to the appropriate care in the appropriate setting for all residents of our service area remains paramount in our planning and our day-to-day operations. The challenges that the COVID-19 virus has presented the Hospital in providing healthcare while keeping patients and staff safe have been daunting. In addition, our difficult payer mix, challenging demographics, economic outlook, the comparatively poor health status of our residents and the ever increasing social challenges (Poverty, low educational attainment, drug use, crime, etc.), have presented a formidable challenge in FY20 and we expect these challenges to continue in FY21.

Comparing the FY 20 to the FY 21 budget, there are only a few changes in services. The first is when a patient is seen in the ED and needs to be admitted. There will be a new provider for the Hospitalist service starting in November 2020. The existing Emergency Department provider will also provide hospitalists. Communication and care coordination will be enhanced between the inpatient unit and the Emergency Department. We are closely integrating ED and hospitalist care to improve the admission process and patient experience results. In addition there will be a new team of part time Urologists providing care at the Hospital. This new team of three part-time Urologists will replace the current full time Urologist enabling the Hospital to maintain this vital service to the community.

As for Acute Care, the Average Daily Census projected for the 2021 Budget is 10.5 compared to a forecasted 2020 of 13.6. Covid-19 has been a challenge when managing length of stays for some patients. It's also expected our new hospitalist service will be successful at shortening the length of stay.

The Hospital collaborated with the Department of Mental Health (DMH) in May 2020 to prepare the Distinct Part Psychiatric Unit to treat patients who need psychiatric inpatient care but who have also tested positive for the COVID 19 virus. The unit is planned to reopen in late August. Since there is no accurate method to determine patient level, the DMH has contractually arranged to reimburse the Hospital for its routine operating expenses. Therefore, the budgeted census for our Distinct Part Psychiatric unit has no bearing on the revenue generated by this service.

The Hospital has experienced a decrease in the patient visits seen in the Emergency Department in FY20 compared to FY19. The average day visits in 2019 were 39 while in FY 2020 it's projected to be 32.5. This decline we believe occurred essentially due to the COVID 19 virus. Since we believe there will be a return to normal pre-covid levels in FY 2021, we are anticipating that visits per day will increase to an average of 36 per day. The decline in 2020 ED visits we believe resulted in part from the efforts to reduce the number of people leaving their homes during the pandemic, plus our efforts to direct patients to our primary care physicians in the area.

Regarding Operating Expenses, Total Expenses are projected to decline in FY 20 compared to 2019 by approximately $7.2 million. Approximately half of that improvement is in 2020 salary and employee benefit costs. The balance is in physician fees along with management and contractual expenses. We expect that operating expenses will increase approximately 3.4 % essentially due to wage adjustments needing to be provided to key clinical professionals in order to retain them.

2. Payment and Delivery Reform

Springfield Hospital continued to operate under the OneCare Vermont contracts for Medicaid and Blue Cross in 2020 however terminated its One Care Vermont Medicare contract effective for calendar year 2020. The current 2020 contract limits the financial exposure of Springfield Hospital for the first $1 million of downside risk as well as limiting saving gains.

Springfield Medical Care Systems (SMCS) is currently an integrated community health system consisting of the SMCS FQHC Network and Springfield Hospital. Although we anticipate exiting Chapter 11 bankruptcy as two separate organizations, we will both seek to positively impact the health status of our residents and continue our commitment to health reform. Each organization's daily activities and routine functions are imbedded in our operations and associated budgets. The Hospital is not seeking recognition of any exceptional expenditures relating to health reform in the Springfield Hospital FY 2021 budget. Our health reform initiatives are predominantly housed within our FQHC network, locations, all having obtained the highest level advanced practice medical home certification.

The SMCS Community Health Team (CHT) works seamlessly with Springfield Hospital and other service providers within our community to manage and coordinate care, develop and implement systems of care that support population health as opposed to episodic treatment of illness while still managing individual cases and ensuring that access to appropriate services is unfettered. The CHT coordinates with our ED to connect patients that have no identified primary care relationship with one of our primary care physicians and to establish a medical home. The CHT is also integrally involved with the discharge planning process at the Hospital to ensure appropriate follow up as needed and successful transitions from the acute side of the continuum to community-based outpatient services.

3. Reconciliation

Springfield Hospital Income Statement	**FY2020** Approved budget	**FY2020** Projected	Variances
Total Gross Patient Care Revenue	106,879,875	96,823,057	(10,056,818)
Volumes were down			
Total Revenue Deductions	-57,990,678	56,005,141	1,985,537
Net Patient Care Revenue	48,889,197	40,817,916	(8,071,281)
Total Other Operating Revenue	1,543,669	6,874,780	5,331,111
Total Operating Revenue	50,432866	47,692,696	2,740,170
Operating Expense			

Total Operating Expense	51,418,019	51,328,902	(89,117)
Net Operating Income (Loss)	-985,156	(3,636,206)	(2,651,053)
Total Non-Operating Income	0	19,004	19,004
Excess (Deficit) of Rev Over Exp	(985,156)	(3,617,202)	(2,632,049)

4. Budget to Budget growth

A. Net Patient Revenue: FY21 Budget vs. FY20 Budget is expected to increase 5.4% due to charge increase plus increased Medicare reimbursement as expenses increase since Hospital is a CAH. Patient Activity is presumed to be back at pre-covid levels, along with a slight .5% increase in activity levels throughout the Hospital.

Medicare Revenue: Ratio of gross revenues to total revenues expected to increase between FY21 Budget vs. FY20 Budget due to the aging of the population in the Hospital's service area.

Medicaid & Commercial: Ratio of gross revenue to total revenues is expected remain the same between FY21 and FY 20.

B. Expenses: FY21 Budget values increase by 3.3% vs FY20 Budget primarily due to the physician cost for two specialty clinics were not included in 2020 budget due to timing. Non salary expenses increase by inflation of an estimated 2.5%.

5. Uncompensated Care:

Bad Debt and Charity Care has been budgeted at 5.5% of Gross Revenue – slight increase over 5% in FY20. The economic effect on patients of the pandemic may cause fewer patients to be able to pay their deductibles and copay. This phenomenon is hoped to be offset by the hospital engaging a new firm to follow-up on claims in a timelier manner. We expect this firm and the collection agency used by the Hospital to adhere to our Patient Friendly Billing guidelines.

6. Operating Margin and Total Margin:

The FY21 Operating and Total Margin are budgeted to be a profit of $185,000 compared to a FY20 projected loss of $3.6 million and a FY20 Budget of $985,000 loss. The FY21 budget is a significant improvement from FY19 Actual $8.2 million Operating loss and Total Margin loss of $16.5 million. The FY21 expenses will continue to be managed aggressively subsequent to the reductions that were a part of a Financial Improvement Plan which began in February 2019. In addition, the FY19 Total Margin loss incorporates an additional $8.2 million expense which resulted from an allocation of operating costs or cash paid by Springfield Hospital on behalf of its parent company, SMCS.

7. Charge Request:

There is a 4% rate request included for FY21. The hospital did not request a rate request from the GMCB for

FY20. The hospital had been granted two rate increases in FY19.
See Appendix VII attached Excel file.

8. FY2020 Variances:

Variances from the budgeted $965,000 in FY2020 are addressed in the presentation material.

9. Capital budget investments:

The hospital has budgeted for Capital equipment for $960,000 in FY21. Routine maintenance costs continue to be budgeted in operating expenses.

10. Technical concerns:

None to report at this time.

ORGANIZATION STRUCTURE

Springfield Medical Care Systems (which includes an FQHC) is the parent of Springfield Hospital. No other companies other than these two.

I. Overview:

Springfield Medical Care Systems (SMCS) is a non-profit healthcare corporation serving portions of Windsor, Windham and Bennington Counties, Vermont and portions of Sullivan and Cheshire Counties, New Hampshire. SMCS operates the SMCS Community Health Center (CHC) network which provides primary and preventative care at community health center locations dispersed throughout the service area. A subsidiary of SMCS, Springfield Hospital, (with campuses in Springfield and Bellows Falls, VT) provides acute care services, including mental health, and also operates specialty physician practices. SMCS is committed to meeting the needs of the residents of its defined service area regardless of insurance status or ability to pay.

SMCS will provide, without discrimination, care for emergency medical conditions to individuals, regardless of their eligibility under the financial assistance policy.

II. Scope and Purpose:

A. To specify the criteria for identifying individuals that are eligible to receive services rendered by SMCS either free of charge (i.e.: 100% discount) or at partially discounted rates.
B. Patients qualifying under the Financial Assistance Policy (FAP) will be exempt from liability for the determined discount.
C. The FAP applies Federal Poverty Guidelines, updated annually, adjusted for household size, to identify patients with documented inability to pay for either the entirety or for a portion of the services rendered. Individuals that receive a partial discount are liable for balances not discounted and will be subject to collection efforts by SMCS for the balance due after discount.
D. The FAP does not apply to elective or cosmetic services or services that are not medically necessary. Patients are encouraged to inquire prior to the rendering of services as to whether or not a service qualifies for the FAP.