

Northeastern Vermont Regional Hospital
FY 2019 Budget Presentation to Green Mountain Care Board
August 20, 2018



1) INTRODUCTION

- Presenting today to the Green Mountain Care Board from Northeastern Vermont Regional Hospital (NVRH) are:
 - Paul Bengtson, MA, MBA, FACHE- Paul has been the Chief Executive Officer at NVRH since November, 1986. This is Paul's 32nd and final budget presentation!
 - Seleem Choudhury, DNP, MSN, MBA, RN. CEN, FAEN - Seleem has been the Chief Nursing Officer/VP Professional Services at NVRH since October, 2013
 - Bob Hersey, MBA, FHFMA- Bob has been the Chief Financial Officer at NVRH since September, 1999
 - Laura Rooker, MSHCA – Laura has been the VP of NVRH Physician Practices since January, 2018
 - Laural Ruggles, MPH, MBA- Laural has been the VP of Community Health Improvement and Marketing since 2002. She has held a number of leadership positions at NVRH since 1995
 - Ryan Sexton, MD, FAAEM – Dr. Sexton has been the Medical Director of the NVRH Emergency Department since September, 2015. Dr. Sexton also serves as a member of the Vermont Board of Medical Practice
 - Cynthia Swartz, MD, MM – Dr. Swartz has been a psychiatrist at NVRH since October 2017. Dr. Swartz is a Board Certified Adult Psychiatrist and Board Certified Child and Adolescent Psychiatrist

II) HOSPITAL ISSUES

- NVRH will have its first new CEO in 32 years
- Improving services for patients with mental health and substance use disorder diagnoses
 - Mental health and other current challenges impacting ED care
 - High acuity medical surge, lack of regional inpatient bed availability
 - Mental health emergencies requiring prolonged observation awaiting psychiatric treatment facility be availability
 - Ongoing CMS reviews
 - Strategies to address current challenges
 - Staffing augmentation
 - Space redesign
 - Strategies focused on improving mental health services
 - Developing mental health urgent care in ED in coordination with NEKHS crisis service

- Direct and indirect psychiatry consultations for patients in NVRH primary care practices
- Direct and indirect psychiatry consultations for patients on the general medical/surgical service
- Available 7 days per week by phone to primary care and hospitalists providers for urgent patient care questions

III) AREAS OF RISKS/OPPORTUNITIES

- Recruitment and retention of health care professionals at all levels - RISK
- Any changes that negatively affect 340B program -RISK
- With strengthening of NVRH services fewer patients “driving by” to seek services elsewhere creating net patient revenue growth above “cap”- RISK
- LRH purchasing VT physical therapy practice and using its clinic space for LRH orthopedic surgeon - RISK
- New programs that will benefit patients with mental health and substance use disorder diagnosis – OPPORTUNITY
- Using lean-like processes to improve both operating efficiencies and patient satisfaction - OPPORTUNITY
- Alternative payment pilot project with DVHA and CAHC Transformation LLC – RISK & OPPORTUNITY
- Possible participation in OneCare Next Gen products – RISK & OPPORTUNITY

IV) ACCESS – WAIT TIMES for THIRD NEXT AVAILABLE APPOINTMENT (see Narrative ¶ 6)

- Primary Care: 1 week well-check, Acute visits are 2 days at maximum
- Pediatrics: 11 weeks well-child, 1 week Acute
- Cardiology: 4 months new patient, 3 months Follow up
- Palliative Care: 1 week

V) REACTION TO ALL-PAYER MODEL QUALITY MEASURE RESULTS ATTACHED AT APPENDIX IV (see Narrative ¶ 4)

- HbA1C poor control: Participation in state-wide Diabetes collaborative
- 30 Day F/U discharge from MH or Alcohol/SUD dependence treatment: increased collaboration with treatment centers (Valley Vista)
- Percent of reported PCP: Historically has been a good number in our service area, but has increased even further with collaboration and support from our ED Care Manager

VI) FINANCIALS:

A. Profit and Loss, Cash Flow, Balance Sheet

| | 2017 Actual | 2018 Budget | 2018 Projection | 2018 Budget to 2019 Budget | | | |
|--|---------------------|---------------------|---------------------|----------------------------|--------------------|-------------|---|
| | | | | 2019 Budget Submitted | \$ Change | % Change | |
| Gross Patient Care Revenue | \$157,055,100 | \$164,561,400 | \$164,399,600 | \$170,619,500 | \$6,058,100 | 3.7% | |
| Disproportionate Share Payments | \$1,578,800 | \$1,075,300 | \$1,053,000 | \$953,000 | -\$122,300 | -11.4% | \$626,000 DSH reduction since 2017 |
| Graduate Medical Education Payments | \$0 | \$0 | \$0 | \$0 | \$0 | 0.0% | |
| Bad Debt | -\$3,387,300 | -\$3,535,600 | -\$3,051,500 | -\$3,192,800 | \$342,800 | 9.7% | Bad debt and free care change consistent with current trends |
| Free Care | -\$2,666,000 | -\$2,797,400 | -\$2,906,200 | -\$3,040,800 | -\$243,400 | -8.7% | |
| Deductions From Revenue | -\$75,785,900 | -\$82,226,300 | -\$81,668,100 | -\$84,400,203 | -\$2,173,903 | -2.6% | |
| Net Revenue Deductions | -\$80,260,400 | -\$87,484,000 | -\$86,572,800 | -\$89,680,803 | -\$2,196,803 | -2.5% | |
| Net Patient Care Revenue | \$76,794,700 | \$77,077,400 | \$77,826,800 | \$80,938,697 | \$3,861,297 | 5.0% | |
| Fixed Prospective Payments | \$0 | \$0 | \$0 | \$0 | \$0 | 0.0% | Alternative calculation shows 3.2% budget to budget increase |
| Total NPR & FPP (incl Reserves) | \$76,794,700 | \$77,077,400 | \$77,826,800 | \$80,938,697 | \$3,861,297 | 5.0% | |
| Other Operating Revenue | \$2,078,086 | \$2,955,000 | \$3,444,600 | \$3,692,700 | \$737,700 | 25.0% | growth of 340B program revenue |
| Total Operating Revenue | \$78,872,786 | \$80,032,400 | \$81,271,400 | \$84,631,397 | \$4,598,997 | 5.7% | |
| Operating Expense | | | | | | | |
| Salaries Non Md | \$26,356,397 | \$27,401,163 | \$27,962,270 | \$29,040,250 | \$1,639,087 | 6.0% | Market adjustments above cost of living for certain positions |
| Fringe Benefits Non Md | \$8,579,339 | \$8,491,670 | \$8,956,000 | \$9,080,900 | \$589,230 | 6.9% | |
| Fringe Benefits Md | \$2,896,100 | \$2,544,630 | \$2,469,500 | \$2,643,685 | \$99,055 | 3.9% | |
| Physician Fees Salaries Contracts & Fringe | \$8,587,869 | \$9,463,870 | \$9,473,750 | \$10,371,950 | \$908,080 | 9.6% | |
| Health Care Provider Tax | \$4,297,275 | \$4,582,000 | \$4,487,500 | \$4,600,000 | \$18,000 | 0.4% | New projects coming on line during FY18 and FY19 |
| Depreciation Amortization | \$2,940,589 | \$3,019,000 | \$3,407,000 | \$3,450,000 | \$431,000 | 14.3% | |
| Interest - Long Term | \$280,685 | \$386,000 | \$266,000 | \$350,000 | -\$36,000 | -9.3% | |
| Other Operating Expense | \$23,457,159 | \$22,690,767 | \$22,793,880 | \$23,655,412 | \$964,645 | 4.3% | |
| Total Operating Expense | \$77,395,413 | \$78,579,100 | \$79,815,900 | \$83,192,197 | \$4,613,097 | 5.9% | Increase and details explained in response to GMCB staff Question 3 |
| Net Operating Income (Loss) | \$1,477,373 | \$1,453,300 | \$1,455,500 | \$1,439,200 | -\$14,100 | -1.0% | |
| Non-Operating Revenue | -\$990,611 | \$0 | \$0 | \$0 | \$0 | 0.0% | |
| Excess (Deficit) Of Revenue Over Expense | \$486,762 | \$1,453,300 | \$1,455,500 | \$1,439,200 | -\$14,100 | -1.0% | Operating margin consistently between 1.7 and 2.2% since FY15 |
| Operating Margin % | 1.9% | 1.8% | 1.8% | 1.7% | | | |
| Total Margin % | 0.6% | 1.8% | 1.8% | 1.7% | | | |

Fiscal Year 2019 Budget Analysis Northeastern VT Regional Hospital

| BALANCE SHEET | FY 2016A | FY 2017A | FY 2018B | FY2018P | FY 2019B |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Cash and Investments | \$ 6,683,538 | \$ 7,385,232 | \$ 7,054,600 | \$ 7,367,256 | \$ 8,767,256 |
| Risk Reserve for Fixed Reform Payments | 0 | 0 | | | |
| Other Current Assets | 11,364,240 | 10,945,679 | 11,559,700 | 13,663,435 | 12,810,974 |
| Current Assets | 18,047,778 | 18,330,911 | 18,614,300 | 21,030,691 | 21,578,230 |
| Board Designated Assets | 16,639,051 | 17,908,361 | 17,000,000 | 17,950,000 | 17,950,000 |
| Net, Property, Plant and Equipment | 21,091,013 | 21,321,344 | 27,500,000 | 23,000,000 | 26,300,000 |
| Other Long-Term Assets | 7,754,531 | 6,388,027 | 7,913,000 | 5,574,425 | 5,424,425 |
| Assets | \$ 63,532,373 | \$ 63,948,643 | \$ 71,027,300 | \$ 67,555,116 | \$ 71,252,655 |
| Current Liabilities | \$ 12,931,702 | \$ 13,219,612 | \$ 12,765,100 | \$ 9,440,000 | \$ 12,290,000 |
| Long Term Liabilities | 12,039,615 | 11,593,044 | 16,867,300 | 17,522,000 | 16,932,000 |
| Fund Balance | 38,561,056 | 39,135,987 | 41,394,900 | 40,593,116 | 42,030,655 |
| Liabilities and Equities | \$ 63,532,373 | \$ 63,948,643 | \$ 71,027,300 | \$ 67,555,116 | \$ 71,252,655 |

Benchmarks - Hospital

| | | | | | |
|----------------------------------|-------|-------|-------|-------|-------|
| Days Cash on Hand | 123.1 | 124.0 | 115.7 | 120.9 | 122.3 |
| Long Term Debt to Capitalization | 23.8% | 22.9% | 29.0% | 30.3% | 28.7% |
| Debt Service Coverage Ratio | 4.3 | 4.6 | 3.6 | 5.1 | 2.2 |

Slightly higher than peer group median

Consistently at or above peer group median. Negatively affected for one year (Short term construction loan)

Benchmarks-Vermont System Averages

| | | | | | |
|----------------------------------|-------|-------|-------|-------|-------|
| Days Cash on Hand | 183.3 | 193.6 | 167.3 | 178.2 | 173.4 |
| Long Term Debt to Capitalization | 30.5% | 29.0% | 29.6% | 26.7% | 25.4% |
| Debt Service Coverage Ratio | 5.0 | 3.9 | 3.7 | 3.7 | 3.7 |

| CASH FLOW BUDGET | |
|---|------------------|
| SOURCES OF CASH | FY 2019 |
| OPERATING GAIN | 1,439,200 |
| ADD: DEPRECIATION EXPENSE | 3,550,000 |
| ADD: INTEREST EXPENSE | 350,000 |
| ISSUANCE OF NEW DEBT (SHORT TERM) | 1,800,000 |
| LOAN FROM CAPITAL ACQUISITION INVESTMENTS | - |
| CAMPAIGN PROCEEDS | 500,000 |
| TOTAL SOURCES OF REVENUE | 7,639,200 |
| USES OF CASH | |
| DEBT SERVICE PAYMENTS | 740,000 |
| CAPITAL BUDGET | 6,891,300 |
| TOTAL USES OF CASH | 7,631,300 |
| CHANGE IN CASH | 7,900 |

Short term debt to fund capital budget projects. Borrow late in FY19 repay in early FY20

Includes \$3.1 million for MRI project

B. In-state vs. Out-of-State Payer Mix

- See table below

| Payer | In-State | Out of State | Total |
|------------------|--------------------|------------------|--------------------|
| Blue Cross | 23,061,600 | 1,684,500 | 24,746,100 |
| Other Commercial | 22,997,600 | 2,287,900 | 25,285,500 |
| Medicaid | 32,320,800 | 629,300 | 32,950,100 |
| Medicare | 64,527,400 | 3,170,700 | 67,698,100 |
| Self Pay | 3,285,600 | 254,300 | 3,539,900 |
| Workers Comp | 2,713,000 | 122,400 | 2,835,400 |
| Total | 148,906,000 | 8,149,100 | 157,055,100 |

C. Expense Drivers and Cost Containment Efforts (three to four specific high-level categories);

Expense Drivers

- Market wage adjustment above general cost of living increase for certain employee groups
- Increased staffing and other cost increases to provide care for patients with mental health diagnoses
- New healthcare reform investments
- Rising drug costs above normal inflation

Cost Containment Efforts

- Maximizing 340B drug savings
- Maximizing group purchasing discounts for patient supplies
- Investments to improve energy efficiency
- Targeted “lean” projects that improve operating efficiency and the patient experience

D. An Updated Reconciliation Between FY18 Approved Budget and FY18 YTD

There are no updates to the previously submitted reconciliations, which are recreated below:

| NET PATIENT REVENUE (NPR) | AMOUNT | EXPLANATION |
|---------------------------------------|----------------------------|--|
| FY 2018 Approved NPR | \$77,077,400 | |
| Additional NPR volume Increase | 749,400 | More flu-related admissions; higher number of patients awaiting placement in mental health facility; expanded Hospitalist service so fewer transfers to tertiary care; tertiary care beds full so unable to transfer patients |
| Projected FY 2018 NPR | <u>\$77,826,800</u> | |

| OTHER OPERATING REVENUE | AMOUNT | EXPLANATION |
|--|----------------------------|---|
| FY 2018 Budget Other Operating Revenue | \$ 2,955,000 | |
| Increase 340B Revenue | 676,900 | Increase in eligible providers |
| Recovery of Sheriff Coverage Costs | 155,000 | Partial reimbursement for 1:1 coverage for a patient |
| Unbudgeted Meaningful Use Revenue | 140,000 | Newly eligible providers successfully meet MU criteria |
| Projected FY 2018 Other Operating Revenue | <u>\$ 3,726,900</u> | |

| OPERATING EXPENSES | AMOUNT | EXPLANATION |
|---|---------------------|--|
| FY 2018 Budgeted Operating Expenses | \$78,579,100 | |
| Volume Related Additional Expense (non-salary) | 225,000 | |
| Additional Security Costs (Reimbursement received) | 155,200 | 1:1 Sheriff and staff coverage for long-stay patient. Billed to patient, reimbursement expected |
| Increased staffing costs | 245,000 | Mental health patients; CMS requirements |
| Increased employee health insurance expense | 273,900 | |

| | | |
|--|----------------------------|---|
| Additional providers to improve access to services | 277,000 | Hospitalist, CRNAs, Womens Wellness; Infusion therapy |
| Locum tenens expense | 300,000 | Several nursing vacancies as well as pediatrician, general surgery and primary care provider vacancies |
| Depreciation Expense | 388,000 | \$200,000 cut as "placeholder" for final budget order; \$188,000 anticipated CIP projects at year end actually completed and depreciated during fiscal year 2018 |
| Provider Tax Increase | (94,500) | Lower NPR base |
| Interest Expense | (120,000) | New bond issue postponed until FY 19 |
| Reference lab expenses over and above original estimate | (412,800) | Reference lab related expenses were recalculated. Original estimate significantly understated |
| FY 2018 Projected Expenses | <u>\$79,815,900</u> | |

E. Other Clarifying Information to Tell the Hospital's Financial Story

i) In the budget narrative NVRH presented an alternative calculation of approved FY 2019 that included application of the FY growth rate to approved FY 2017 net patient revenue and other adjustments. If approved by the GMCB the hospital's FY 2019 budget NVRH growth rate would be within the 3.2% target. Our alternative calculation is presented below

| | |
|--|--------------------|
| FY 2017 Approved NPR after Rebasing | 77,069,500 |
| FY17-FY18 Approved Growth Rate | 103.40% |
| FY 2018 Base | 79,689,863 |
| Add Cardiology Transfer (Full Year) | 389,000 |
| FY 2018 Adjusted Base | 80,078,863 |
| Less: Reference Lab Transfer Off | (2,000,000) |
| FY 18 Final Base | 78,078,863 |
| FY18-FY19 Approved Growth Rate | 103.20% |
| FY 2019 Sub Total - Allowed NPR | 80,577,400 |
| Add: NPR for "Barrier" Patients | 300,000 |
| Add: New Services Above Cap | |
| Recovery Coaches | 75,000 |
| Mental Health ED Phase I | 100,000 |
| FY 2019 Allowed NPR | 81,052,400 |
| FY 2019 Budgeted NPR | 80,938,700 |
| Under (Over) Allowed NPR | 113,700 |

- ii) As noted below in Section X NVRH is planning a unique approach to participating in an alternative payment model.

VII) COMMUNITY HEALTH NEEDS ASSESSMENT UPDATE

- Highlights from NVRH's 2018 Community Health Needs Assessment (CHNA)
 - New CHNA 2018 on our website
 - Partnered with Vermont Department of Health and Agency of Human Service community profiles for secondary data
 - Low income individuals, families, and older Vermonters are our most vulnerable
 - Significant indicators:
 - Obesity rates
 - Access to medical and mental health providers
 - Suicide rates and % of young people with a suicide plan
 - Built on the framework of our Accountable Health Community.
 - Our community will be well nourished, well housed, physically healthy, mentally healthy and financially secure
- Review 2018 CHNA implementation plan
 - Expect to be adopted by the NVRH Trustees on 8/29
 - Initiatives informed by community engagement
 - Uses the framework of the AHC and Results Based Accountability
 - Increased the budget for implementation by 43%

VIII) HEALTH REFORM INVESTMENT PROGRESS AND OUTCOMES – explain the response to Narrative, ¶ 8

- NVRH has made several successful health reform investments including:
 - Ambulatory pharmacist – improving patient medication management has reduced avoidable hospital visits
 - Cal-Essex Accountable Health Community organization – created several population health management programs; led to CAHC Transformation LLC
 - ED Care managers – 700 patient visits to new primary care provider after treatment in ED
 - Palliative Care program- 1.25 FTE board certified physicians, visits doubled, managing use of health care services
 - Part time psychiatrist – improved access to mental health services, resource to primary care, ED and Hospitalist
 - Community paramedic service (in process) – target implementation date is XXX

IX) CAPITAL BUDGET PLANS – include both non-CON and CON capital plans (include routine replacement of nonmedical equipment and fixtures). Include information on performance of approved CONs

- Below is a summary of the FY 2019 Non-CON capital plan

| NVRH Capital Investment Summary - Non CON FY 2019 Budget | |
|--|------------------|
| Routine Equipment Replacement | 2,378,000 |
| Facilities/Infrastructure Maintenance | 535,000 |
| Technology - Routine Replacement | 552,000 |
| Technology - Birth Center New E HR | 326,000 |
| Total | 3,791,000 |

- NVRH’s CON application to replace an existing MRI was approved on July 2, 2018. Due to pending winter conditions, work on the project was delayed until April 2019
- During fiscal 2019 or early in fiscal 2020 NVRH expects to file a CON application to renovate and expand the Emergency Department and, possibly, adjacent departments

X) LONG RANGE FINANCIAL OUTLOOK - indicate where financial goals align with APM targets

- NVRH’s population health and financial goals come into alignment with APM targets under the CAHC LLC
 - Reduce per capita cost of care
 - Improve patient experience of care
 - Improve population health
- NVRH’s proposal for CY 2019
 - Partner with OneCare VT to attribute to NVRH all Medicaid beneficiaries residing in our HSA (outside Next Gen)
 - Calculate Estimated Total Cost of Care and NVRH Fixed Payment amount based on attribution
 - FFS payments continue through CY 2019 and compared to calculated total cost of care and fixed payment (no risk)
 - A pre-determined amount will be set aside by NVRH and invested in local population health programs/services
- For CY 2020 and beyond the 2019 plan will be rolled out to Medicare and Commercial beneficiaries (no risk)
- For CY 2020 and beyond the 2019 for Medicaid beneficiaries would continue but with both upside and downside risk
- FY CY 2021 and beyond the Medicare and Commercial program would continue with both upside and downside risk

XI) REVIEW OF HISTORICAL COMPLIANCE WITH BUDGET ORDERS

| Historical Compliance With Budget Orders | | | | | |
|--|---------------|---------------|---------------|---------------|--|
| | FY 2015 | FY 2016 | FY 2017 | FY 2018 | (w/Alternative Calculation) FY 2018 |
| Approved Net Patient Revenue | \$ 65,324,117 | \$ 68,095,300 | \$ 77,069,500 | \$ 77,077,400 | \$ 78,078,863 |
| Actual Net Patient Revenue | 65,548,594 | 71,586,551 | 76,794,700 | 77,826,800 | 77,826,800 |
| Actual NPR Over (Under) Approved NPR | \$ 224,477 | \$ 3,491,251 | \$ (274,800) | \$ 749,400 | \$ (252,063) |
| Percent NPR Over (Under) Approved NPR | 0.3% | 5.1% | -0.4% | 1.0% | -0.3% |