

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

III) 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 bed 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

	2018 Budget to 2019 Budget					
	2017 Actual	2018 Budget	2018 Projection	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%
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%
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%
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%
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%
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%
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	4.2%
Total Operating Expense	\$77,395,413	\$78,579,100	\$79,815,900	\$83,192,197	\$4,613,097	5.9%
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 %	1.9%	1.8%	1.8%	1.7%		
Total Margin %	0.6%	1.8%	1.8%	1.7%		

\$626,000 DSH reduction since 2017

Bad debt and free care change consistent with current trends

Alternative calculation shows 3.2% budget to budget increase

growth of 340B program revenue

Market adjustments above cost of living for certain positions

New projects coming on line during FY18 and FY19

Increase and details explained in response to GNCB staff Question 3

Operating margin consistently between 1.7 and 2.2% since FY15

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
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

Slightly higher than peer group median

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

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	<u>103.40%</u>
FY 2018 Base	79,689,863
Add Cardiology Transfer (Full Year)	<u>389,000</u>
FY 2018 Adjusted Base	80,078,863
Less: Reference Lab Transfer Off	<u>(2,000,000)</u>
FY 18 Final Base	78,078,863
FY18-FY19 Approved Growth Rate	<u>103.20%</u>
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	<u>81,052,400</u>
FY 2019 Budgeted NPR	80,938,700
Under (Over) Allowed NPR	<u>113,700</u>

- 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%