Northwestern Medical Center (NMC)
Fiscal Year 2020 (FY2020) Budget – Staff Analysis Questions & Answers

1. *Have the hospital's projections for FY2019 changed?*

NMC's projected net operating loss for FY2019 was ($4,730,884) at the time our FY2020 budget was submitted. On July 23, 2019, NMC submitted June financial data to the Green Mountain Care Board with a revised projected net loss for FY2019 of ($6,683,325).

The difference in these projections is the implementation of a new electronic health record in our outpatient physician practices and clinics that has resulted in significant decreases in productivity, and therefore, in net patient revenue. NMC went live with Meditech Ambulatory on May 1, 2019 in 17 of our physician practices and clinics and anticipated that productivity would decrease for a short period of time. The decrease in productivity has been more significant and has lasted longer than anticipated. Both NMC and Meditech have been working diligently to make efficiency improvements. Before going live with Meditech Ambulatory, NMC's net patient revenue was on budget and our FY2020 budgeted net patient revenue is appropriate. We have seen productivity recover in many of our specialty practices. However, we remain especially challenged in Primary Care and Pediatrics and are making the changes necessary to correct volumes in those areas.

Expenses have also influenced our projection for FY2019. Employee benefits are projected to be over budget by $1.5 million, with the driver being self-insured health claims. Salaries and wages and travelers are projected to be over budget by $1.8 million, with the driver being wages on our Progressive Care Unit. NMC has been working on staffing ratios, shared governance, training and education, and other initiatives that require an investment in staff, with the goal of striking the appropriate balance between efficiency and staff satisfaction. Lastly, contracted services are projected to be over budget by $1.1 million, with the driver being locum physicians, interim management, and a consulting engagement to redesign our surgical department to be more ambulatory surgery center like.

Please see the response to Question 7 below for revised FY2019 projections.

2. *What is the total ACO reserve on the balance sheet for Projected FY19 and Budget FY20? Do you anticipate realizing savings or owing OneCare money when the FY18 settlements are finalized? Are Other Reform Payments recorded in deduction from NPR, if not, where are they recorded?*
    - *What is your basis for booking ACO-related reserves and how do you evaluate those reserves through the year?*
    - *Do you believe your ACO-related reserves affect other types of reserves (e.g., bad debt) that you carry on your balance sheet? If so, how?*

The total ACO reserve on the balance sheet for projected FY2019 and for budget FY2020 is $2,981,983. OneCare has communicated that they are awaiting the final FY2018 risk settlement report from Medicare. NMC does not currently have a receivable for realized savings or a payable for money owed to OneCare on our balance sheet for FY2018. Our OneCare dues are recorded as a deduction from NPR. NMC's basis for booking ACO-related reserves is to follow generally accepted accounting principles and to work with our independent auditors to ensure that our reserves are appropriate and adequate. For FY2018 actual, projected FY2019 and budget FY2020, our reserves represent 75% of our maximum total risk. Therefore, our reserves are evaluated when our maximum total risk changes each year. We do not believe that our ACO-related reserves affect other types of reserves that we carry on our balance sheet.

3. *NMC's FY19 Budget Order states the "Hospital shall consult with Vermont Information Technology Leaders (VITL) to facilitate patients' ability to electronically consent to adding their clinical data to the Vermont Health Information Exchange (VHIE)." What kind of headway has NMC made to facilitate this?*

   In FY2019, NMC began capturing a consent flag indicating patient consent (including the date of consent) for our Emergency Department encounters. This information is passed to VITL and it is our understanding that they can record this in their system. NMC will be testing expanded functionality to other ambulatory service areas in FY2020.

4. *What is the value of 1 day of Days Cash on Hand?*

   1 day of Days Cash on Hand currently equals $326,488.

5. *What is the value of 1% of NMC's change in charge request? If there is a variance between NMC's calculation and the calculation provided by GMCB staff above, please include the steps to your calculation.*

   The value of 1% of NMC's change in charge request is $575,570. There is not a variance between NMC's calculation, and the calculation provided by GMCB staff.

6. *Are Medicaid and Medicare reimbursement assumptions still valid include Disproportionate Share Payments?*

   Yes, the Medicaid and Medicare reimbursement assumptions used to prepare the FY2020 budget are still valid and the Disproportionate Share Payments are also still valid based on the most recent communication that we have received.

7. *NMC budgeted positive operating margins in both 2018 and 2019 but missed those budgets significantly with negative operating margins. Please explain why this year's budgeted positive operating margin is realistic.*

   The proposed FY2020 budget will be challenging to implement and represents a steppingstone in our transition back to a sustainable operating margin. Revenue targets and expense reductions must be achieved, and further expense reductions will need to be identified as we move to FY2021 and beyond. It is a difficult path; however, we believe that it represents the right path forward for the organization as we take our next steps in the journey of healthcare reform.

As previously reported to the GMCB, NMC continues to implement an operational improvement plan that has a significant impact on FY2020. We have incorporated nearly $6 million of expense reductions into the FY2020 budget. The major categories of those expense reductions are as follows:

- Salaries and Wages - $3,637,017
- Contracted Services - $624,000
- 340b Program - $500,000
- All Other - $1,194,086

This budget was created by the Leadership Team with the active involvement of our Management Staff and input from Medical Staff leaders. Our budget, as originally submitted, resulted in an operating margin of 1%, based on approval by the Green Mountain Care Board (GMCB) of a 5.9% rate increase. We have since contacted the GMCB staff to discuss additional expenses that should be included in our FY2020 budget to address the Meditech Ambulatory implementation challenges discussed in the response to Question 1. We were advised to submit several revised documents (see below and attached) to reflect this change.

This budget was crafted around NMC's long term strategic priorities to allow NMC to continue to deliver on our mission of providing exceptional care for our community. For NMC to continue to be a successful, relevant provider as Vermont's healthcare system transforms from fee-for-service to population health, we must continue to invest in Primary Care, Community Care Management, and Primary and Secondary Prevention. We must maintain and improve our levels of quality and access. To preserve access and advance Primary Care, we are planning for the employment of the Cold Hollow Family Practice in Enosburg. We must modernize our Emergency Department to increase safety and privacy. We need to invest in innovation to 'grow our own' nurses to reduce our reliance on travelers and so are partnering with Vermont Tech and Community College of Vermont to expand a nursing program into downtown St. Albans. We have also invested in a redesign of our outpatient surgery department to optimize workflows, efficiency and the patient experience, to directly compete with the for-profit ambulatory surgery center that has opened in Colchester and to take a significant step toward becoming the "hospital of the future". We must engage our staff in Shared Governance so NMC functions as one team with a singular focus on our mission and vision. This budget provides the necessary resources to achieve those goals.

Given that, continued physician practice acquisition and medical inflation are driving growth in our expenses beyond allowable revenue growth. As mentioned above, this budget includes significant expense reductions to produce a positive operating margin while investing in strategic priorities. We have found new efficiencies within existing contracts and pressed for creative approaches to reducing supply expenses. We continue our process of aligning staffing with volumes and ensuring proper levels of productivity across the organization. While we continue to invest strongly in prevention, we have made significant reductions in the funding of Lifestyle Medicine, RiseVT and Healthy Roots.

Growth at NMC in recent years has been driven by growth in access to outpatient services in physician practices. The majority of these practices were pre-existing in the community prior to their employment at NMC and therefore this expense and the growth within it are traditional parts of the overall healthcare system costs, though in this format they can be confused for hospital-driven growth. In FY2010, physician practice gross charges represented 5.3% ($6.8 million) of NMC's total gross charges and in the FY2020 budget, will represent 23.7% ($53.1 million) of gross charges. In many cases, these investments in access come with a negative operating margin. In an environment where total net patient revenue is capped, allocating an increased share of total net patient revenue to services that generate a negative operating margin makes it increasingly difficult to maintain a profitable organization. Investments in primary prevention and surgical optimization can generate a positive return in an environment where the vast majority of reimbursement is made through a capitated payment system. The FY2020 budget assumes that approximately 30% of our net revenue will come through the capitated system administered by OneCare Vermont. The goal of OneCare Vermont is to increase the share of revenue being paid through capitation to 70% by 2022. The long-term financial success of the strategy of investing heavily in preventative services that lose money in a fee-for-service reimbursement model is tied to OneCare Vermont's success in growing the capitated population in Vermont. The guidance that we received from OneCare Vermont is that we should assume no growth in the program from 2019 to 2020 as they have met challenges in bringing on hospital employees and other self-funded plans. This is a cause for concern as 2022 quickly approaches.

8. *NMC triggers the 5% lever as described in the Net Patient Revenue and Fixed Prospective Payments section of the FY20 Budget Guidance. Please explain why this year's budgeted 3.7% increase in NPR/FPP is a realistic target.*

   NMC's NPR before the implementation of the Meditech Ambulatory system on May 1, 2019 as described above in Question 1, was on budget. The FY2020 budgeted increase of 3.7% in NPR is a realistic target that will be achieved with a combination of utilization changes that are consistent with current trends and our requested rate increase of 5.9%. NMC has a long history of meeting or exceeding its NPR budget. The current NPR challenges that we are experiencing are temporary and are a result of the Meditech Ambulatory implementation as discussed above in Question 1.

9. *The letter submitted with the narrative from NMC's Board Chair indicates a decline in staff during FY19 and additional staff cuts in FY20. The numbers submitted in Adaptive and in the reconciliation section of the narrative indicate an increase in staff during FY19, and, when comparing staffing levels to FY18 actuals, FY19 budget and FY19 projections, the only decrease in staffing can be seen from projections to FY20 budget. Please explain this discrepancy.*

   The letter submitted with the narrative from NMC's Board Chair that indicates a decline in staff is comparing FY2019 projections to FY2020 budget. These reductions are part of the operational improvement plan as discussed above in the response to Question 7.

10. *In Appendix VI-Bridges, Table 1, NMC listed funds under "Other (please label)." Please describe what these funds are.*

    A revised Bridges document has been submitted.

11. *In Appendix VI-Bridges, Table 2, the amount of total expenses listed for FY20 budget are approximately $1 million less than was submitted in Adaptive. Please provide detail on the remaining change in expenses from FY19 to FY20.*

    A revised Bridges document has been submitted.

12. *Are the projections provided in Schedule A of the Cold Hollow Primary Care acquisition for a full year? Please provide a copy of the letter sent to Cold Hollow Family Practice patients pursuant to Act 143 of 2016 requiring notice of the transfer.*

    The projections provided are for a full year. The acquisition of this practice, while imminent, has not been formally approved by our Board of Directors. Upon receiving Board approval, we will send notice to patients as required and can provide a copy of that notice to the Green Mountain Care Board. Our current assumption is that NMC will acquire Cold Hollow Primary Care on January 1, 2020. Please advise if NMC should request a physician transfer in FY2020 for 9 months of NPR with a second physician transfer in FY2021 for the remaining 3 months.

13. *In Appendix V-Participation in Health Reform, the budgeted number (monthly average) of attributed lives for CY2020 with the BCBSVT program is 0. We understand claims associated with the BCBSVT program through the ACO are still paid as fee for service from BCBSVT. What is the monthly average number of attributed lives in your BCBSVT ACO program?*

    We recently received a list of BCBSVT attributed lives that includes 1,321 individuals for the 2019 program year. We expect that this number will decrease slightly as individuals change coverage. Our FY2020 budget assumed no significant increase in the number of attributed lives in the 2018 program year of 1,250.

14. *For FY19 projections what departments are expenses exceeding revenues?*

    NMC is not reimbursed for services at the department level. Therefore, it is not possible for us to provide an accurate FY19 projection listing the department where expenses are exceeding revenues.

15. *Please suggest a statistic the GMCB can monitor to better understand the trends in the total number of staffed beds in the hospital versus the number of beds available for use, and how full or empty those beds are from month to month?*

    Capacity and/or bed availability are difficult to measure in a monthly statistic. Fluctuations in any given 24-hour period can be drastic and unpredictable. Monitoring average daily census for the entire patient population (for example, including sub-acute and observation) and comparing that to beds available is a reasonable statistic to better understand trends.

16. *What is the impact of Medicare 2018 issues reflected in 2019 projection?*

    NMC has no impact. The Medicare 2018 issues were fully accounted for in FY2018 actuals.

17. *If you assumed Medicare increases, what is the value and what would a reduction in commercial be to maintain your NPR?*

    NMC is not assuming any Medicare increases (based on the final rule) that are not already incorporated into our FY2020 budget as submitted. Therefore, there is no corresponding reduction in commercial to maintain our NPR to be calculated at this time.

REVISED BALANCE SHEET:

Fiscal Year 2020 Budget Analysis	**Northwestern Medical Center**	
BALANCE SHEET	**FY2019P**	**FY2020B**
Cash & Investments	**56,117,996**	**53,502,196**
Risk Reserve for Fixed Reform Payments	0	0
Other Current Assets	16,750,000	17,000,000
Current Assets	**72,867,996**	**70,502,196**
Board Designated Assets	24,000,000	24,000,000
Net, Property, Plant And Equipment	68,000,000	69,000,000
Other Long-Term Assets	1,800,000	1,963,167
Assets	**166,667,996**	**165,465,363**
Current Liabilities	**10,968,017**	**12,284,432**
Risk Reserve for Fixed Reform Payments	2,981,983	2,981,983
Long Term Liabilities	30,126,103	28,349,024
Other Noncurrent Liabilities	3,700,000	1,500,000
Fund Balance	118,891,893	120,349,924
Liabilities and Equities	**166,667,996**	**165,465,363**

Benchmarks-Hospital		
Days Cash on Hand	**257.2**	**244.5**
Days Receivable	35.21	38.76
Long Term Debt to Capitalization	20%	19%
Days Payable	55.21	48.81
Debt Service Coverage Ratio	0.0	3.1

REVISED INCOME STATEMENT:

Fiscal Year 2020 Budget Analysis

INCOME STATEMENT	FY2019P	FY2020B
Revenues		
Gross Patient Care Revenue	**209,534,051**	**223,749,944**
Disproportionate Share Payments	944,549	934,355
Bad Debt	(7,061,806)	(7,099,149)
Free Care	(940,146)	(1,196,174)
Deductions from Revenue	(112,318,666)	(124,052,177)
Graduate Medical Education	0	0
Net Patient Care Revenue	**90,157,982**	**92,336,799**
Fixed Prospective Payments	18,088,172	24,589,780
Reserves	0	0
Other Reform Payments	0	0
Fixed Prospective Payments and Reserves	18,088,172	24,589,780
Net Patient Care Revenue & Fixed Payments & Reserves	**108,246,154**	**116,926,579**
Other Operating Revenue	4,774,144	5,213,346
Total Operating Revenue	**113,020,298**	**122,139,925**
Expenses		
Salaries Non MD	43,301,341	44,536,610
Fringe Benefits Non MD	12,285,490	11,292,360
Physician Fees, Salaries, Contracts	17,469,802	18,491,986
Fringe Benefits MD	1,621,112	1,564,905
Health Care Provider Tax	6,293,443	7,288,305
Depreciation & Amortization	6,100,000	6,702,192
Interest - Long Term & Short Term	770,462	961,816
Other Operating Expense	31,944,406	31,550,038
Total Operating Expense	**119,786,056**	**122,388,212**
Net Operating Income (Loss)	**(6,765,758)**	**(248,287)**
Non-Operating Revenue	82,433	1,706,318
Excess (Deficit) of Rev Over Exp	**(6,683,325)**	**1,458,031**
Benchmarks-Hospital		
Operating Margin%	**-6.0%**	**1.0%**
Total Margin %	**-5.9%**	**2.4%**
EBIDA %	**0.1%**	**7.3%**
Cost per Adjusted Admission	**10,092**	**10,410**