

A. Executive Summary – Brattleboro Memorial Hospital FY25 Budget

The Fiscal Year 2025 Budget for Brattleboro Memorial Hospital (BMH) represents a rebuilding year, featuring maintenance and consistency in our core services and growth in key areas. Our volumes will remain consistent across our core functions in Inpatient units; Progressive Care, Med Surg 2, and Birthing Center. We are preparing and planning for growth in Cardiology and Podiatry, two specific areas that serve our aging population in Windham County. In Cardiology we are rebuilding a strong presence after a recent decline in the availability of providers. As a corollary to the growth in those two areas, we are projecting volume growth in hospital operations around Echocardiography, MRI, Lab, and Outpatient surgery. We are also working to consolidate our Primary Care practices to increase efficiency and improve patient access to our services as we prepare for a potential launch of a Federally Qualified Health Center (FQHC) in Windham County.

Gross revenue is projected to increase by 7.8% versus FY24 Budget and 6.7% versus FY24 annualized actuals. The increase is driven by utilization (4%) and a rate increase (blended at 2.7%). BMH is the only Medicare Dependent Hospital in the state of Vermont, and we will adhere to the Medicare Inpatient Prospective Payment System (IPPS) guidance on rate increase of 2.26% (lowered from the original guidance at 2.6%). We had originally planned to stay within Green Mountain Care Board (GMCB) guidance on commercial rate increase of 3.4%, but learned on June 5, 2024 that Medicaid would not offer a rate increase in FY25. Medicaid represents 18% of BMH volume on gross revenue. To account for the shortfall created by Medicaid's rate freeze, we are increasing our commercial rate request to 4.7%.

Net Patient Service Revenue will be \$99.2M in FY25, a 2.2% increase from FY24 Budget and a 4% increase from FY24 annualized actuals. Our Capitation revenue from OneCare Vermont is projected with a modest increase of 4.7% to reflect growth in our attribution and access to the members in our community. NPR, defined as the sum of Net Patient Service Revenue and Capitation Revenue, will be \$113.9M in FY25, a 2.5% increase over the FY24 Budget. This 2.5% increase falls well within the GMCB guidance for NPR growth.

We are projecting modest expense growth totaling 4.5% over FY24 Budget and 0.3% over FY24 annualized actuals. Executive Leadership at BMH has decided to hold our FTE count relatively flat year over year to the FY24 Budget. Our budgeted headcount in FY24 was 557 FTEs and in FY25 we are projecting 563 FTEs. There were a few headcount additions related to the previously mentioned growth in Cardiology and Podiatry. Wages are projected at 4.8% above FY24 budget, a \$2.5M increase, and 7.0% or \$3.6M above our current run rate in FY24. Benefits will increase by 2.8% versus FY24 Budget and 6% versus FY24 annualized. We are holding our Contract Labor budget flat to FY24 at \$1M, as we continue to focus on hiring FTEs and decreasing our reliance on Contract Labor.

Department	Year to date Actual APR24	Year to date Budget FY24	FY25 Budget	Var to FY24 Budget	Var to FY24 Actuals
<i>(incr)/decr</i>					
Brattleboro Medical Group	139	154	154	(0)	(15)
President's Office & CFO	116	113	118	(6)	(2)
CMO	24	26	30	(3)	(6)
CNO	225	244	241	3	(16)
COO	19	21	21	0	(2)
Brattleboro Memorial Hospital	523	558	564	(6)	(40)

Contracted services is flat to the FY24 Budget but an increase versus FY24 annualized of \$1.4M or 13%. We are planning to invest in technology to improve our efficiency as an organization and to improve patient access. For example, Digital Front Door will aid in making our services more easily accessible to our community. Data Analysis Expressions (DAX) will improve our clinicians' productivity and allow them to see more patients, as well as reducing clinician burnout and improving retention. Vocera will facilitate communication and security amongst front line staff.

Utilities costs are increasing by 9.3% versus FY24 Budget, due primarily to an increase in our fuel cost. Vermont's Healthcare Provider Tax is increasing by \$600k or 10.5% due to our projected volume increase.

We are planning for a small operating margin of \$550k, which is critical to maintain the financial health of the organization.

	FY24 Annualized	FY25 Budget	Variance from Actuals (\$)	Variance from actuals (%)	FY24 Budget	Variance from Budget (\$)	Variance from Budget (%)
Total Gross Patient Service Revenue	283,490,868	302,446,586	18,955,718	6.7%	280,449,989	21,996,597	7.8%
Total Deductions From Revenue	(188,192,712)	(203,294,106)	(15,101,394)	8.0%	(183,385,871)	(19,908,235)	10.9%
Net Patient Service Revenue	95,298,156	99,152,480	3,854,324	4.0%	97,064,118	2,088,362	2.2%
Capitation Revenue	11,843,943	14,768,761	2,924,818	24.7%	14,100,062	668,699	4.7%
Other Revenue	5,188,416	5,923,723	735,307	14.2%	3,822,062	2,101,660	55.0%
Net Operating Revenue	112,330,515	119,844,964	7,514,449	6.7%	114,986,243	4,858,721	4.2%
<u>Operating Expenses</u>							
Salaries, Wages and Benefits	67,263,528	69,074,330	(1,810,801)	-2.7%	66,001,049	(3,073,281)	-4.7%
Contracted Services	17,595,992	17,580,270	15,721	0.1%	18,486,052	905,782	4.9%
Supplies and Other	23,172,967	21,823,507	1,349,461	5.8%	19,619,852	(2,203,655)	-11.2%
Depreciation & Amortization	4,013,321	4,017,316	(3,994)	-0.1%	3,852,274	(165,042)	-4.3%
Healthcare Provider Tax	6,333,301	6,319,149	14,153	0.2%	5,721,126	(598,023)	-10.5%
Interest expense	502,412	479,893	22,519	4.5%	460,787	(19,106)	-4.1%
Total Operating Expenses	118,881,522	119,294,464	(412,942)	-0.3%	114,141,140	(5,153,325)	-4.5%
Operating Gain or (Loss)	(1,021,923)	550,500	1,572,422		845,103	(294,603)	

On February 21st, 2024, BMH was impacted by the cyberattack on Change Healthcare, our claims processing vendor. BMH was one of a small group of hospitals in VT impacted by the outage. The effect on our cash flow, AR balance, working capital availability, and ability to sustain services was catastrophic over an extended period of several months. We invested significant time and resources from many team members in Incident Command to ensure the continuation of services. BMH's leadership team committed to remaining open in all service areas and continuing to pay all of our employees despite our complete inability to process claims and collect payment for services rendered. The direct impacts on our business and our payors lasted from February 21, 2024 through the end of May 2024, and we are still continuing to recoup from the backlog of claims and cash flow. The Change Healthcare outage has had a dramatic effect on our ability to focus on and achieve stated objectives budgeted in FY24.

YTD FY24 performance has been steady despite the obstacles that the Change Healthcare outage presented. On an annualized basis, we are projecting gross revenue to exceed the FY24 budget by \$3M or 1%. Net Patient Services Revenue (NPSR) is running below budget by \$1.8M, but we anticipate a correction in that trend by year end due to our current end-to-end Revenue Cycle transformation with BerryDunn—an Accounting and Consulting firm we hired for a six month engagement to address and correct issues in our Revenue Cycle functions. A few of their key focus areas are improving patient access to services, denials management, and Benefit Advocacy.

On expenses, we are projecting relatively flat performance into FY25 with a small increase of 0.3%. The majority of that spend is a continued investment in Salaries, Wages and Benefits plus Contract Labor. We are hoping to remain relatively flat on contracted services, refocusing energy on sustainable projects for the future. We are also planning to reduce our Supplies expenses overall by better inventory management. We are rolling out a new Financial Planning and Analysis software, Syntellis, this year and hope that it positions BMH well for a potential transition to Global Budgeting in the future by providing a better line of sight to our department level expenses.

B. Background

There have been no changes to our corporate structure within the last year.

Explain your approach to considering and participating in any corporate affiliations in which you or the other organization may have a financial stake. Not applicable

Describe and quantify the impact of any participation in regional collaborations with other service organizations or providers. Brattleboro Memorial Hospital, Brattleboro Retreat, Groundworks Collaborative, and Health Care & Rehabilitation Services have launched Healthworks ACT, a cost-effective, evidence-based solution that holds promise to improve the health and increase the housing stability of marginalized Vermonters, while also reducing healthcare costs and stress on emergency services. Healthworks ACT is serving people in Windham County who are accessing services from Groundworks Collaborative due to housing insecurity, diagnosis of a serious mental illness, past or current substance use disorder, and a tendency for high utilization of emergency care and services. The team is providing integrated medical, mental health, and substance use care, as well as peer support and case management services in a cross-agency collaboration using the Tool for Measurement of ACT (TMACT), an evidence-based Assertive Community Treatment model for participant-centered, trauma-responsive care.

BMH is the fiscal agent for this program. The program currently has secured grant funding and private donation funding, but is still at a deficit for the remaining balance. We are committed to continuing this critical service area, and will strategize on best paths for future funding.

There have been no service-line closures, transfers, or additions since the prior year budget review.

C. Budget Questions

No service line changes anticipated.

For each of the *Section I* benchmarks not met in the budget submission, explain and justify the deviation using credible and sufficient evidence.

We are proposing NPR growth of 2.5% versus the FY24 Budget, which meets the Section I benchmark in that it is less than 3.5%.

Our commercial rate request will be 4.7% for FY25. We had planned for 3.4% on commercial rate before receiving notice from Medicaid on June 5, 2024 that it will not be offering a rate increase this year. Eighteen percent of our gross charge volume is Medicaid, so this is a significant negative impact to our Revenue budget. We adhered to the Medicare IPPS rate of 2.26% for traditional Medicare and Medicare Advantage, which together account for 60% of our gross volume. Medicare decreased its rate offering from 2.6% to 2.26%. In order to account for the lack of rate increase from Medicaid and the decreased rate from Medicare, we are increasing our commercial rate request modestly to 4.7%. Given our geographical location bordering NH and MA, a significant portion of our commercial volume (25%) comes from out of state commercial payers in NH, MA, NY. Our rate increase should have a minimal impact on VT commercial payers.

Assumptions

Labor expenses. BMH remained relatively flat year-over-year on FTEs. Labor expense distribution is very similar to FY24. We will again budget \$1M for Contract Labor with the strategy of continually reducing our reliance on that workforce and hiring FTEs in clinical roles. To support our aging population in Windham County, we have budgeted for two Cardiologists and two Podiatrists, as well as several support positions to accompany them in the clinics. Our Inpatient units remain consistent in volumes.

Utilization. Overall we are projecting a utilization increase of 4% for FY25. The increases will occur in Cardiology, Podiatry, Lab, MRI, Echocardiography and Outpatient Surgeries.

Pharmaceutical expenses. We are projecting Pharmaceutical expense based on last year's budget plus a 12% increase. On 340B, we based our revenue projection on FY24 run rate.

Cost inflation. We are projecting our Medical Surgical supplies cost to increase by 5.8% versus FY24 Budget. Utilities will increase by 8.2% given rising fuel costs. We are also projecting an increase of 13.8% on other supplies and expenses to account for cost inflation and increased volumes.

Case Mix Index (CMI). Explain any substantive changes in CMI by Payer, providing evidence to justify anticipated changes. Quantify any impacts on your budget by payer.

Rate Changes by Payer. Our commercial rate request will be 4.7% for FY25. We had planned for 3.4% on commercial rate before receiving notice from Medicaid on June 5, 2024 that it will not be offering a rate increase this year. Eighteen percent of our gross charge volume is Medicaid, so this is a significant negative impact to our Revenue budget. We adhered to the Medicare IPPS rate of 2.26% for traditional Medicare and Medicare Advantage, which together account for 60% of our gross volume. Medicare decreased its rate offering from 2.6% to 2.26%. In order to account for the lack of rate increase from Medicaid and the decreased rate from Medicare, we are increasing our commercial rate request modestly to 4.7%. Given our geographical location bordering NH and MA, a significant portion of our commercial volume (25%) comes from out of state commercial payers in NH, MA, NY. Our rate increase should have a minimal impact on VT commercial payers.

Capital Expenses. The Capital Plan includes equipment purchases and updates in the following areas; Nuclear Medicine, Endoscopy, IT, Lab and Pharmacy. Additionally we are planning to purchase an MRI replacement machine using remaining funds from our 2016 Bond Issuance.

Financial indicators. Explain any changes (key drivers) to your Operating Margin, Days Cash on Hand, and Debt Service Coverage Ratio relative to your FY24 projections, as important to consider in relation to your budget request. We are not projecting any major changes to our financial indicators for FY25.

Uncompensated care. We have hired the consulting firm BerryDunnto lead an end-to- end Revenue Cycle engagement at BMH this year starting in May 2024. One of the focal points for BerryDunn is improving our Charity Care to Bad Debt ratio as an organization. We are developing strategies to bolster our Benefit Advocate position and improve patient accessibility to our Financial Assistance program.

Community Benefit. BMH is subsidizing Healthworks, as described above. Additionally we can point to our Birthing Center as a community benefit to Windham County. With decreasing births in an aging region, we are committed to maintaining access to Women's and Maternal Health as a community benefit. Also as a Medicare Dependent Hospital, BMH provides a great deal of service to patients at a low level of reimbursement. We were recently recognized in a Beckers Hospital Review as a leader in the state of Vermont for Fair Share Spending as a non-taxable entity who provides maximum community benefit through our services and subsidies. Our Financial Assistance Policy also ensures that all members of our community have access to quality care that they can afford. Additionally, we will continue to offer cutting edge cancer treatments, such as infusions, which are not part of the 340B program. These types of drugs typically generate financial losses for BMH, but we will continue to provide them because they are the best level of care for our patients.

Briefly summarize known risks in the budget as submitted, including the potential impact of and any known timelines associated with the risk, as well as any risk mitigation efforts, and their cost or potential benefit.

- Continued subsidy of Healthworks

- Timing of conversion to FQHC
- Unpredictable labor market dynamics and staffing of key areas like Radiology and MRI
- Incremental volume accompanying new providers – Cardiology and Podiatry
- Our aging population and their greater abundance of chronic illness
- The growth of Medicare advantage enrollment, the additional administrative burden it requires and the poor coverage for post-acute care.
- The Medicare dependent hospital and low volume adjustment must be renewed.
- The continued difficulties of getting patients to a higher level of inpatient care.
- Recruitment and retention of necessary providers
- Medicare IPPS / OPSS rates
- 340B program legislation

No substantive change to BMH Administrative to Clinical ratio on expenses from FY24 to FY25.

Facility Fees: Please describe the methodology your hospital uses to establish any facility fees and how much they totaled in FY24 and are expected to total in FY25. Eleven of Brattleboro Memorial Hospital's (BMH) outpatient medical practices are provider-based. Patients at provider-based practices are billed for both a facility and a professional fee.

BMH uses the following methodology to establish facility fees: For Medicare patients, the total fee is split between a facility component and a professional component. The professional fee component is roughly equal to 3x the Medicare professional fee schedule. The facility fee component for E&Ms is 3x the Medicare OPSS reimbursement rate. The facility fee component for non-E&Ms are calculated by the Medicare professional fee schedule x3 and OPSS x 3 and combined to be split 60% facility and 40% professional. This methodology complies with Medicare requirements for hospital-owned provider-based outpatient medical practices. For non-Medicare patients, only the total charge is billed, as a professional fee. The total of the professional and facility fee billed to Medicare patients equals the total fee billed to non-Medicare patients. Details of our fees for Medicare and non-Medicare patients are in our price transparency file, which is available on the BMH website.

In FY23 facility fees totaled \$8,344,952. As of May 31, 2024 facility fees totaled \$5,729,501. BMH does not have a separate projection or budget for facility fees.

Does your budget increase request consider consumer affordability, and if so, how?

As Vermont's only Medicare Dependent Hospital, we are adhering to the rate increase mandated by Medicare. Additionally, we are requesting a 4.7% increase on Commercial insurers due to Medicaid's lack of a rate increase in the coming year. Approximately 25% of our Commercial claims are from out of state payers. BMH's overall impact on Vermont commercial payers is very minimal. Our rate increase should not impact consumer affordability. BMH was recently recognized in a Beckers Hospital Review as a leader in the state of Vermont for Fair Share Spending as a non-taxable entity which provides maximum community benefit through our services and subsidies.

If your proposed rate and/or NPR increase request were to be reduced, provide a high-level description of your hospital's contingency plan for maintaining access to essential services and generating a positive margin. BMH has two Bond issuances as part of our capital structure. We are measured bi-annually on our performance against Bond Covenants with the bank that holds our bonds. One of our key covenants is Debt Service Coverage ratio, which is driven specifically by the net income we

generate as an organization. Any reduction of our proposed rate increase would threaten compliance with our Bond Covenants.

Provide all costs associated with (i) lobbying and (ii) marketing, advertising, and branding, and identify the amount paid to each entity that performed such services on your behalf. In FY23, we paid \$106,524 to VAHHS and \$20,942 to AHA for their lobbying work.

Describe planned fundraising efforts and anticipated donations for FY25. We will pursue the Annual Fund Campaign in FY25 and anticipate generating \$100-500k in donations.

Describe projected investment income and, if projected to be zero, please provide a 3-year summary of annual investment income. We are not able to project investment income at this time.

Has your hospital experienced a reduction in payment from any payer based on quality performance in the last two years? If so, please explain the nature of the penalty, the revenue impact, and steps taken to remediate the situation. No BMH has not had any reductions in payment due to quality performance.

Describe the hospital's investments in workforce development initiatives, including nursing workforce pipeline collaborations with nursing schools and compensation and other support for nurse preceptors, residency programs, and any other workforce development initiatives in which you are participating. Include a description of the program and where the accounting entries show up in your proposed budget (income statement and balance sheet). BMH has developed a successful Nurse Residency program which recruits new Nursing Graduates and provides a 6 month on-the-job training program that culminates in full time employment. Our program has been extremely successful in hiring and retaining RNs and creating a pipeline for talent. It has also allowed us to greatly reduce our reliance on Contract Labor in nursing areas. This program hits our Income Statement in the Wages line and the Balance Sheet mainly in cash. We have also entered an agreement with AHSA, which is a Contract Temp Company that offers a temp-to-hire option.

Please describe the hospital's investments in workforce retention such as housing, day care, and other employee benefits. Include a description of the program and where the associated accounting entries show up in your proposed budget (income statement and balance sheet). We do not have any such programs currently.

For what drivers of expense growth do you feel hospitals should be "held harmless" and why? Utilities and Pharmaceuticals are largely market driven and we have very little ability to control those costs. Healthcare Provider Tax represents a very large portion of our expense that is rate-based and imposed externally.

D. Hospital & Health System Improvement

Given the access challenges related to Mental Health, Substance Use Disorder, Long Term Care, and Primary Care, please share any investments you are making and/or the steps you are taking to improve access in each of those areas, with specific ties to your budget, where appropriate.

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management services in a cross-agency collaboration using the TMACT, an evidence-based Assertive Community Treatment model for participant-centered, trauma-responsive care.

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Describe how you work with other providers in your community, including the FQHC, designated agencies, other community-based services etc., being sure to include opportunities and obstacles to ensuring smooth transitions of care along the care continuum. See Healthworks description above.

If your hospital was asked to submit a Performance Improvement Plan, please provide an update on progress or challenges relative to that plan. We are currently working on partnering with Rutland FQHC to form an FQHC in Windham County. Establishing an FQHC will greatly improve access to Primary Care in our community. We are also planning to transition from NEAH to NE Collaborative for our Shared Services provider; we believe we can realize annual savings from that operational switch.

Hospital Networks: Explain your shared services strategy, any additional revenues associated with such investments and methodologies for allocating associated costs. Quantify any efficiencies to date, and when you expect to achieve any future efficiencies. BMH is an independent hospital, not part of a network. See above answer for shared savings strategy.

F. Other

Is this a zero-based budget? If not, when was the last time your organization developed a true zero-based budget (creating a budget from scratch and then justifying every expense rather than basing the budget on prior spending)? Our Revenue Budget was created using a zero-based methodology. The expense budget is not zero-based and we are not aware of the last time that method was used at BMH.

Patient Financial Assistance

If a contract with a third party exists to collect payments from patients, please provide this contract and disclose the amount paid for such collection efforts and the revenue generated therefrom E-management & Assoc (EMA) is the third party company used by BMH for collection of self-pay accounts, The current rate is 4.5% of monthly collections.

If you have a contract with a third party, please describe the return on investment for this decision compared to managing these activities internally as a part of Patient Financial Assistance Programs? Due to limited staffing and current Patient Access workflows, the expense of EMA has an ROI primarily related to staffing costs including wages and employee benefits. BMH is currently working with BerryDunn who will assist us in developing and optimizing workflows to maximize participation in our Financial Assistance Program.

Please describe how patients are screened for Patient Financial Assistance at your hospital. Patients are screened based on their current income level as it relates to the guidelines in our Policy.

When patients receive a bill – either paper or electronic – are they made aware of the hospital's patient financial assistance policy and how to apply? There are different statements sent out by EMA. There is a section on the front with contact information for Financial Assistance (see below) and Financial Aid is again mentioned on the backside with instructions on how to access further information and submit an application. Recently, we also created brochures to hand out to anyone who may be in need of financial aid. They are widely available in our patient practices and in hospital registration areas. Also, efforts have been made to make our Financial Advocate more accessible and available by adding signage on her door and outside of her office. We have developed a Mobile integrated Health program with Rescue, Inc. (a local

EMS service). This program sends community paramedics into patients' homes to reduce avoidable ED visits and avoidable readmissions.

Brattleboro Memorial Hospital
Financial Assistance

If you qualify, it may cover all or part of the cost of your care. For more information, please call a Financial Counselor Monday through Friday 8:00am to 5:00pm at 802-257-8814.

Front Side:

Can't Pay Your Bill? We Can Help!

If paying this bill creates a financial hardship, you may apply for our Financial Assistance Program. Financial aid policies and applications can be found on our website at www.bmhvt.org by clicking "Patients & Visitors", "Patient Information", and then "Financial Assistance Program". If you qualify, you may receive free or discounted care.

Back Side: