



FY22 Hospital Budget Narrative

- A. **EXECUTIVE SUMMARY.** Provide a summary of the hospital's FY22 budget submission, including any information the GMCB should know about programmatic changes, such as staffing and operational changes and any further impacts of COVID-19. Please include the hospital's response to COVID-19 vaccinations and how it affects operations.

Grace Cottage's FY22 budget submission is built around an overall charge rate request of 5.0% and current volume levels.

While COVID-19 has continued to have an impact on daily operations throughout FY21 thus far, Grace Cottage has still been able to essentially meet both budgeted Gross Patient Revenue (GPR) and Net Patient Revenue (NPR) – despite the continuing need for social distancing and reduced capacity in some areas. The hardest hit area being the Provider Practice, as average office visits are longer than normal due to extra time involved in screening patients, more thorough cleaning between patients, limiting the number of people in waiting rooms at any one time, etc. -- reducing the number of available appointment slots.

The submitted budget is a very conservative budget of expected GPR and NPR. With the expectation that by the start of FY22, a majority of the population we serve will have been vaccinated and will allow for increased capacity in those areas currently being limited.

Staffing has had some impact on current operations and in some instances has limited our capacity as well. We are currently searching for additional Physical Therapy staff needed to meet the demand, as well as have experienced times of needing to limit Inpatient Swing Bed admissions due to staffing ratios.

Grace Cottage responded to Vermont's need for administering COVID-19 vaccines by staffing up vaccine clinics at our facility from February through June, as many as 3 days per week, giving up to 200 doses per day. We were fortunate to be able to provide this critical need for our community with existing staff stepping up to the plate and filling shifts whenever needed, including employees from almost every department throughout the facility.

- B. **YEAR-OVER-YEAR CHANGES.** Explain each component of the budgeted FY22 based on the prompts below, please explain the hospital's budget-to-budget growth (or decline), including and ongoing COVID-19 assumptions.

- i. **Net Patient Revenue and Fixed Prospective Payments (NPR/FPP)**
 - FY22 budgeted NPR is based on current volumes of business throughout the facility, with the exception of two areas:
 - a. Outpatient Laboratory: FY22 budgeted volume does not include the COVID testing done in FY21, so thus a decrease in GPR and NPR.
 - b. Provider Practice: Decreased total visits budgeted as a result of an 0.54 FTE reduction from FY21 projection.
 - The requested FY22 budgeted NPR growth from FY21 budget is required to cover increased operating expenses (as discussed below under Operating Expenses) throughout the organization as a result of the supply/demand issues resulting from COVID throughout the past year.
 - FY21 has shown a shift in payers from what was expected for FY21. As Table one shows, there has been a shift from Commercial to Medicaid and Self Pay – presumably as a result of job loss during COVID.

- ii. **Net Patient Revenue and Fixed Prospective Payments (NPR/FPP) Utilization**
 - As above, all utilization was budgeted at current FY2021 levels, which are tracking closely to FY2021 budgeted amounts.
 - As indicated in the Executive Summary, it is expected that by the start of FY22 there should be the ability to open up more available appointment slots in the Provider Practice which would increase utilization, however we did not include that since it would be impossible to predict accurately.
 - Once the additional Physical Therapy staff is found, utilization in that department will increase as well in the Outpatient department.

- iii. **Charge Request**
 - As outlined in the Executive Summary, Grace Cottage’s overall charge rate request is 5.0%.
 - This 5.0% charge rate increases GPR from FY21 projection by 5.0%, however due to the two areas discussed above where FY22 utilization is budgeted at less than FY21 projection, the overall GPR change is 3.6% FY21 projection to FY22 budget, and 2.8% FY21 budget to FY22 budget.
 - Grace Cottage has kept its annual charge request low for the past three years at 3.2% each year, however this year a larger request was required based on escalating operating costs in many areas, some as a result of COVID-19. For example, the rate we are now having to pay for Traveler Nurses has increased between 60% and 85% since the beginning of FY21. Across the board the cost of supplies has increased due to shortages as a result of COVID-19, with not only the cost of the products being far more than costing previously, but many vendors adding COVID-19 surcharges on the invoices. It is hoped that some of those prices may slowly decrease downward once production can resume to normal levels, unfortunately that is a very big unknown at this point.

- iv. Adjustments (physician transfers and accounting adjustments)
 - Grace Cottage has no adjustments to report.

- v. Other Operating and Non-Operating Revenue
 - Grace Cottage's largest variance in Other Operating Revenue is a result of just receiving official notification that our PPP Loan of \$2.97m was forgiven, and therefore recognized as grant revenue in FY21.
 - Some of the remaining CARES Act Funding we had received in FY20 was also recognized in FY21. Currently, unless HHS agrees to extend the period for usage of funds received last year beyond 06/30/2021 Grace Cottage will be required to return the unused funds (as noted in the Appendix), which are still sitting in our bank account.
 - Non-Operating Revenue continues to exceed budget annually due to the loyalty and support of our community. We are here for them when they need us, and their desire to assure we continue to be is paramount.

- vi. Operating Expenses
 - As discussed above under Charge Request, expenses are up on essentially everything. Aside from Traveler Nurses and supplies which are both up drastically it has also been necessary to do many market adjustments to salaries in order to recruit and retain qualified staff. This has created the variance between FY21 budget and FY21 projection, as well as carried forward to FY22 budget.
 - As indicated on the Appendix reconciliation of expenses, there are also several new positions in the current year that contribute to the variance as well. Additional need for Physical Therapy staff (as discussed earlier), additional support staff in several areas due to increased demands of reporting and dealing with day-to-day operations as well as ever-increasing data requirements and prior authorizations needed for referral work in the Provider Clinics, and sicker patients with more comorbidities in the Inpatient unit.

- vii. Operating Margin and Total Margin
 - As indicated in the Executive Summary, the presented budget is a very conservative budget, as it relates to expected NPR, however not as it relates to total Expenses – and is an overall Operating Margin of a loss of \$890k – significantly less than actual operating results in 2019, and what was budgeted for 2020. Though due to COVID-19 funds, 2020 actually resulted in a slightly positive Operating Margin.
 - While the Expense budget should be a worst-case scenario (and as discussed hopefully will decrease as inflated costs of supplies, etc. may return to some sort of normalcy), the NPR based on utilization is based on continuing the lower level of utilization experienced thus far this year with COVID-19 still affecting available appointment slots as well as some patients continued reluctance to come anywhere near a hospital unless absolutely necessary. Based on

demands, assuming we can find the appropriate staff, it will most likely increase in the areas previously mentioned.

- The positive Total Margin budgeted for FY22 is possible through the overwhelming continued generosity of our community.

C. RISKS AND OPPORTUNITIES.

- i. Please discuss the hospital's risks and opportunities in FY22. Recognizing the risks and opportunities in the current environment, please explain how the FY22 budget proposal supports strategies for addressing these issues.
 - As with the FY21 budget, the biggest risk in FY22 is likely the potential for additional COVID-19 outbreaks and/or shutdowns if it continues to mutate and the vaccines prove not effective on the many new variants. Or it is determined that the vaccine requires a booster and the booster is not developed in time to prevent such occurrences.
 - The biggest opportunity for Grace Cottage continues to be to focus on providing and expanding access to Primary Care.

- ii. Please describe the impact of COVID-19 on access to care/wait times at your organization, including the use of telehealth and telemedicine, COVID-19 related safety protocols, and other relevant factors
 - The biggest impact during the current fiscal year, as already discussed, has been the need to limit the number of patients in the Provider Practice due to safety protocols.
 - Earlier on in the year it also affected Inpatient admission when all newly arriving patients needed to be quarantined and assumed positive until their COVID-19 test results were received. This at times did limit the number of patients we could admit.
 - Some telemedicine has continued to be used in FY21 for those patients not comfortable physically coming to the facility or where appropriate.

- iii. Please discuss any lessons learned from the COVID-19 pandemic thus far, and any positive changes the hospital has adopted or plans to adopt for the future.
 - Grace Cottage learned, actually we already knew but it was clearly confirmed, that we have a very loyal and compassionate staff. Throughout the entire pandemic our staff has done whatever needed to be done to assure that any patient requiring care was taken care of. This was especially evident when we staffed up the first COVID-19 vaccination clinic at short notice, and continued to staff it for the next four months. As mentioned earlier, it was done primarily with existing staff, stepping away from their regular jobs, to lend a hand. The daily coverage schedule included not only the required nurses and pharmacists to give the vaccines, but staff from dietary, finance, rehab, lab, billing/medical records, information services, human resources, just to name a few, to do the

scheduling, information recording, and ushering of patients in and out of the building and helping them find parking.

Opportunities for Grace Cottage continue to be to focus on providing and expanding access to Primary Care. Based on need in our community, we have added additional Pediatric coverage to our Primary Care practice starting in August.

D. VALUE-BASED CARE PARTICIPATION.

Grace Cottage is not currently participating in OneCare Vermont's provider network. We have been meeting regularly with the OneCare throughout this year discussing the possibility of participating in ways that would minimize our risk. While it is too late to rush through any participation for the coming fiscal year, we are reviewing the potential of participating for Medicaid in FY23.

- E. CAPITAL INVESTMENT CYCLE.** List the hospital's capital investments and describe the investment cycle and how it relates to the hospital's overall strategic plan, including the challenges facing Vermont's hospitals in response to the COVID-19 pandemic (e.g., pauses in capital improvement projects). In accordance with 18 V.S.A. § 9435(f), "routine replacements of nonmedical equipment and fixtures, including furnaces, boilers, refrigeration units, kitchen equipment, heating and cooling units, and similar items" that are not subject to Certificate of Need review must be included in a hospital's proposed budget. The Board will seek additional, more detailed information about anticipated capital improvement projects when FY21 budget data is inputted into Adaptive.

FY21 capital investments include replacement of our CT Unit (had planned to do before end of FY20 but it was delayed until FY21), several COVID related projects (negative air in an ED room, reception area modifications for Screeners, a COVID testing room, and some smaller projects), as well as the FY21 planned projects of replacement/upgrade of our Pyxis MedStations, and an IT project of a complete upgrade/refresh of our Wireless and Physical Network for connectivity (resulting in greater network security), Patient Beds, and the Nurse Call System (also planned to do in FY20 but was delayed until FY21).

FY22 capital investment plans include replacement/upgrade of our Ultrasound, resurfacing of parking lots, HVAC upgrades in several areas, and several IT projects.

Grace Cottage has no approved or planned CON projects in FY22.