NORTH COUNTRY HOSPITAL – BUDGET 2023 – NARRATIVE

A. EXECUTIVE SUMMARY

During FY 2022 North Country Hospital has faced a large number of financial challenges. Most of the challenges are carried forward and reflected in our budget submission for FY 2023.

The largest challenge is availability of workforce for all types of jobs in the hospital, clinical and non-clinical in almost all departments. To maintain service lines necessary for our community we have implemented strategies to attract new employees and retain our existing employees. This will be discussed in more detail in the Risk and Opportunities section, part iv. of this narrative. There has been a large cost associated with this, which will also be discussed later in this narrative.

Supply cost has been a major factor in the last year and going forward. We have seen the largest cost increase in pharmaceuticals but almost materials and equipment is at a much higher cost than has been historically. Because there is no indication that these costs will decrease, inflation has been added on top of the high costs experienced in FY 2022.

Covid 19 does not have any direct effects on our budget submission except that the last 2.5 years of the pandemic has influence unprecedented increases in expenses mentioned above.

We need time to stabilize and reevaluate the environment before work can be done on sustainability. Workforce to deliver patient care 24/7, adequate inventory and supplies to meet patient's needs, recruiting providers, all have demanded attention and will continue into the foreseeable future.

B. YEAR-OVER-YEAR CHANGES

i. NPR/FPP: Overview

Budget 22 compared to budget 23 - the hospitals net patient revenue in total increased by 12%.
Budget 23 to the 22 projection - the hospitals net patient revenue in total increased by 10%.

i. There are no significant changes expected in reimbursement from any payers.

ii. Reduction in net revenue needs from non Medicaid payers:
A rate increases on Medicaid charges does not result in any additional reimbursement for the Hospital. Currently, Medicaid does not reimburse at a rate to cover costs.
The combination of these two factors, with the addition of rising costs, makes it impossible to decrease the request from non Medicaid payers.
Bad debt and charity care are based on a historical average percent of gross revenue.

ii. NPR/FPP: Utilization

a. North Country is projecting a 7,433,552 increase in base gross revenue, before rate increase, from budget 22 to budget 23. This change in utilization has no effect on reimbursement percentages.

Increases:

Emergency room – based on year-to-date actual March 2022 less a decrease in avoidable emergency room visits due to the opening of a walk-in clinic in July of 2022.

Inpatient - Med Surg - based on actual March 2022 – increase in patient days was not Covid related

Radiology – MRI/Plain film/Cat Scan – based on year-to-date actual March 2022, volumes effected by emergency room usage

Laboratory – based on year-to-date actual March 2022 volumes, effected by emergency room usage, Covid impact minimal in FY22, majority of testing done by CIC

Decreases:

Surgical Services related – decrease in surgical volumes in last part of FY22 and budget 23 due to less providers

Projected 22 gross revenue to budget 23 base revenue is almost flat, showing only an increase of 159,783. This is the net effect of the hospitalist program revenue being part of the hospital's revenue for budget 23 and a decrease in echo, nuclear medicine, and cardiology service for the first quarter of budget 23. We are actively recruiting for a replacement Cardiologist.

b. Please see table below.

Metric	FY2021	FY2022	FY2023
Average Daily Census	16.9	16.8	16.8
Occupancy Rate Per Licensed Bed	46.2%	44.1%	44.1%
Occupancy Rate Per Staffed Bed	46.2%	44.1%	44.1%

c. Appendix 3 of Part B was completed by using the total gross revenue increase on base revenue and assuming that revenue will be spread over all payers in the same relationship as is currently.

iii. Charge Request

a. The requested rate increase for FY23 is 12%. 14% was applied to the hospital charges and 0% was applied to the physician practice charges to net to the 12% overall rate increase.

b. The charge increase affects gross revenue equally by payer. The amount per payer is outlined in Appendix 1 , Table 1.

The following explains the reason for the differing net effect by payer.

Medicare – Inpatient – An increase in charge does net any new reimbursement for Medicare inpatient due to the fact it is paid on a per diem rate.

Medicare – Outpatient – The increase in charge % directly effects the net reimbursement due to the reimbursement being % of charge.

Medicaid – Inpatient and Outpatient – An increase in charge does not net any new reimbursement due to the fact inpatients are reimbursed at a per diem rate and outpatients are based on a fee schedule or encounter rate which doesn't change.

Commercial – Inpatient and Outpatient – Usually a % of charge therefore an increase in charges results in an increase in net revenue.

c. For each 1% increase in rate there is a gain of 691,659 of net revenue. For budget 23 the 12% increase results in 8,611,152 in net revenue. The calculation for net is based on the percentage of reimbursement being received year to date March 2022.

d.

i. yes

ii. yes

iii. are no effects that we are aware of

iv. None

v. Other operating and Non-Operating Revenue

a. Other operating revenue decreased from projected 22 to budget 23 because projected 22 included other operating revenue from the State of Vermont for the Covid testing site that we had at the hospital until the end of June. The change in budget 22 to budget 23 was mainly 340B revenue. Budget 2023 340b revenue was based on year-to-date March 2022 annualized.
Historically, Non-operating revenue is not budgeted given the unpredictable nature of the market. We did include an amount for FY 22 given known current market impacts on the current fiscal year.

b. See completed appendix 6 of Part B.

c. We do not anticipate any additional funds of any type related to Covid 19.

d. The largest other operating revenue line item is the 340b revenue and it is also the greatest risk. This amount has substantially decreased over the past 3 years. As stated above, the budget 23 amount is based on what we have been receiving this year. The recent ruling by the Supreme Court regarding the 340B program is encouraging. We have not incorporated this very recent prospect into the projected 22 or budget 23.

i. Operating Expenses

a. Operating expenses have increased 9,346,673 from budget 22 to budget 23. Table 2 under Appendix 1 shows that almost 40% of this increase or 3.6 million is due to inflation which includes salary and supplies. 2.2 million is traveler and locum increase which will be outlined in the Risks and Opportunities section of this narrative. Higher volumes as mentioned in the utilization section of the narrative contribute to the drug and supply cost over and above anticipated inflation. Based on a reconciliation of the Provider tax we have budgeted for a 615,671 increase in that expense as well. The depreciation expense increase is related to the Budget 23 planned capital purchases.

b. Expenses from projected 22 to budget 23 are forecasted to decrease by 1.1 million. This is due to a projected decrease in traveler usage because of new graduate nurse hirers and other staff hirers. The budget 2023 traveler/locum expense although is higher than budget 22 is much lower than projected 22. Some of that saving is offset by the forecasting of continuing price increases and the need to increase salaries to retain the employees we have.
c. The inflation category with the most significance is the wage increase. The salary increase includes a 4% wage increase across the board, market adjustments for necessary key positions along with many other amounts that are being paid out to recruit and retain employees. Adding inflation to already inflated supply expenses has a significant impact. Health insurance has been projected by an outside agency to rise by double digits. Insurance and utilities rates are not a large factor in the overall amount.

c. The largest cost savings built into budget 23 is the work associated with staffing and managing the locum and traveler usage. Cost saving initiatives include remaining part of N.E.A.H. for group pricing and managing a "just in time" inventory along with all the supply chain challenges. We are also looking to leverage the new Cerner EMR system, implemented in May 2022, to identify new workflows and identify opportunities to repurpose staff toward new care models.

d. Operating expense increase accounts for a large amount of the rate increase.

vii. Operating Margin and Total Margin

a. The operating margin for budget 2023 is 2% of the total operating revenue. This operating margin allows us to continue forward with our strategic initiatives. The four main components: 1.To strengthen health care in our community, 2. Lead with quality and safety and a culture of service for our patients, 3. Attract, develop, and retain top individuals to work at NCH, and 4. Achieve high standards of operations and financial performance through careful stewardship. None of these goals can be supported or accomplished without an operating margin. One specific example is our financial support of a walk-in clinic in conjunction with Northern Counties Health Care. It also allows the hospital to maintain the benchmarks needed for bond covenants. In addition, projected 2022 is projected to be a loss, mainly due to traveler costs and supply expense, so it is important that the hospital has an operating budget that supports an operating margin for fiscal year 2023.

b. No

C. <u>EQUITY</u>

- One recent step is the opening of a walk-in clinic. The walk-in clinic opens on July 11 and will be located downtown Newport with close proximity to Rural Edge affordable housing. This will improve access and help with transportation issues which can sometimes be a barrier to care. We recently started a work group with the goal to revitalize our Wellness Center Programs through increased membership and updated programs in line with our Community Health Needs Assessment and Blue Print healthcare data.

D. <u>WAIT TIMES</u>

To be submitted by August 5th.

E. <u>RISKS AND OPPORTUNITIES</u>

i. The largest risk for FY 2023, not being able to stabilize the workforce to reduce contract labor and recruit vacant physicians for specialty practices – Cardiology and General Surgery. There may also be an opportunity for 340b revenue increase if the Supreme Court ruling holds but is currently unreliable and not included in this budget.

ii. Our staff and patients are eager to move on from Covid 19. The hospital is continuing to advance long term strategic planning such as the walk-in clinic, the hospital intended construction of private patient rooms, and wellness center activities offered off campus. In addition, NCH will continue to onboard the new Cerner EMR system implemented May 2022.

iii. The demands and expectations of healthcare providers have increased as a result of the switch from a singular focus on the pandemic to now being branched out to all aspects of health care delivery. This is combined with patients expecting immediate access despite the organization still navigating the labor shortage and supply effects from Covid 19.

iv. Please discuss the workforce challenges of the hospital as it relates to the following:

a. Vacancy rates

Primary Care MD – 20%
Specialty MD – 14%
RN – 16%
Nursing Support – 11%
All Other – 11.50%

b.Turnover rates -see table below.

AVERAGE TURNOVER RATES	FY2018	FY2019	FY2020	FY2021
Primary Care – MD	17.00%	0.00%	8.00%	0.00%
Specialty – MD	9.50%	5.00%	14.00%	4.00%
RM	15.50%	11.00%	12.00%	16.00%
Nursing support	19.00%	10.00%	16.00%	32.00%
All others	13.00%	14.00%	12.00%	18.00%

c. North Country Hospital has implemented numerous programs to attract and retain qualified team members to provide the services to the community. Some examples are sign on bonus for new employees, referral awards for existing employees, relocation assistance, loan repayment, longevity incentives, Nurse extern program, RN new grad residency program to name a few. We are constantly juggling doing what is necessary to retain our existing employees while attracting new employees. Unfortunately, there are no outside funding sources for these additional expenses of higher salaries and other programs.

d. The total expense for travelers non MD and MD is 4.6 million. This numbers includes travelers for nurses, radiology, MRI techs, physical and occupational therapists, and physicians. We are projecting for FY22 a total of 7.6 million. The new grad residency program mentioned above has filled many positions beginning in May. These RN's employees are now being oriented in their respective areas and will be completed in the fall at which time they can work independently. We continue our recruitment efforts for all open positions.

e. see table below

Metric	**Budget FY2022**	**Projected FY2022**	**Budget FY2023**
Provider Salaries per FTE	499,751	525,248	451,736
FTEs per Adjusted Occupied Bed	6.4	5.7	6.5
Salary Expense to NPR	51%	49%	49%

F. VALUE-BASED CARE PARTICIPATION

i.North Country Hospital does not participate in the Medicare value-based program. North Country Hospital cannot have any further decreases in net revenue. Any value-based program would have to be neutral or better. There needs to be a much better understanding of the ramification of value-based care reimbursement as it relates to a Critical Access Hospital reimbursement structure. There is not a large margin that allows the hospital to take on more risk without jeopardizing the institutions financial stability.

ii.Currently North Country hospital employs chronic care coordinators, licensed social workers, dieticians, asthma educators, and a community health coordinator. These positions are overseen by a Director of Care Innovation and Population Health. These positions are in part funded by dollars received through the ACO for care coordination and quality. Fixed payments are used to fund the care that is provided to the members of the ACO.

iii

A. As the pandemic recedes, we will continue to focus on preventative screenings such as mammography and colonoscopy. We also are working on reducing patients A1C's and educing hypertension. We are payer agnostic; we work on these quality initiatives for all patients.

B. These priorities are conveyed using a provider dashboard. This dashboard provides the care team with the information of the above priorities for the individual and other providers.

C. Success will be measured by seeing improvement of the initiatives on the dashboard.

iv There are meetings bi-monthly to discuss the quarterly reports provided by OneCare. In these meetings action plans are developed to address areas of concern. In part, this committee includes the Chief Medical Officer and the Medical Director of Primary Care. The information is disseminated to the providers as needed by these individuals in conjunction with our Director of Care Innovation and Population Health.

v.

A.The CY20 settlement dollars were used as part of operations .

B. Not applicable

G. CAPITAL INVESTMENT CYCLE

i. The capital budget for budget year 2023 is 3,658,176. Covid 19 has had a price and availability effect on capital purchases in FY 22. In many cases equipment must be ordered well in advance to secure delivery. Some items may not be purchased if other equipment prices exceed the budget.

ii. None of the capital budget is for regulatory or accreditation requirements specifically. The budget does include dollars for a new mammography machine, new surgical equipment, and information system security equipment.

H. SUPPLEMENTAL DATA MONITORING

To be submitted by August 5th.