# Executive Summary

The Fiscal Year (FY) 2023 operating and capital budgets were developed within the guidelines provided by the Green Mountain Care Board (GMCB) with a focus on improving workforce stability and absorbing the impacts of inflation while achieving a small positive operating margin.

The submitted FY2023 operating budget includes an overall average price increase of 9.4%, which will be applied as 11.01% to all hospital-based charges and 0% to all outpatient physician professional fees. This results in Net Patient Revenue (NPR) growth of 8.6% ($9.5 million) compared to the approved FY2022 budget.

Total inflation has increased wage and supply costs by $10.5 million compared with the FY2022 budget. This exceeds growth in NPR by $1 million and results in a lower (1%) operating margin for FY2023 compared to a 2% operating margin budgeted for FY2022.

The strategic focus of NMC is Quality and Safety with the implementation of High Reliability Organization (HRO) practices. This work is important in realizing the level of high-quality care community hospitals are able to provide. HRO practices emphasize system level improvements with in-depth root-cause analysis, daily monitoring of key indicators and a bias for action that encourages staff-led process improvement initiatives that remove the fear of failure by celebrating failed attempts as an opportunity to increase knowledge and try a new strategy based on the knowledge gained. Over the past 18 months, we have achieved measurable improvements in areas of focus, and we continue to expand the program throughout the organization. The data below was recently shared with all staff in a town hall meeting showing a few examples of the progress that has been made:

There are no significant service line changes planned for FY2023. Notable service line changes occurred in FY2022 that are incorporated into the FY2023 budget. This includes the transition of primary care and pediatric services. As previously reported to the GMCB via the physician transfer process and more recently as part of our ED Renovation CON project, primary care services transitioned to our local FQHC (Northern Tier Center for Health "NOTCH") for both the Georgia and St. Albans locations. Pediatric services transitioned to Primary Care Health Partners under the name Monarch Maples Pediatrics for both the St. Albans and Enosburg locations. Ensuring that our community has access to high quality primary care and pediatric services continues to be an important priority for the hospital. These transitions have improved access to services and expertise, while also increasing the financial stability of the hospital. To improve access in primary care, we assisted NOTCH with the recruitment of 5 new primary care providers. We have established a joint steering committee between the two organizations for future collaboration and initiatives related to quality. To improve access in pediatrics, the hospital

now employs a Pediatrician and Pediatric Nurse Practitioners to meet the inpatient care needs of our community.

Like all hospitals, NMC is continually trying to balance current sustainability challenges and concerns while thoughtfully planning for our future. We recognize the Green Mountain Care Board's challenge of trying to balance healthcare affordability with hospital sustainability. Working collaboratively will achieve the best results and we welcome the opportunity to do so.

## Year-over-Year Changes and Reconciliation

i. NPR/FPP: Overview

a.

i. There are three significant categories resulting in changes in NPR from budget FY2022 to budget FY2023: Physician Transfers, Fixed Prospective Payments and Utilization/Payer Mix.
Changes to Fixed Prospective Payments are related to the budgeted risk reserve and the result of physician transfers.

| Fixed Prospective Payment Summary | |
|---|---|
| FY2022 Budget | $22,477,572 |
| Risk Reserve | (2,250,000) |
| Phys Transfers | (1,537,202) |
| Other | (87,853) |
| FY2023 Budget | $18,602,517 |

Physician transfers reduced Net Patient Revenue by $4.4 million, as seen in Appendix 1 and in the Provider Transfer schedules submitted to the GMCB earlier in the fiscal year.

The rows titled Utilization/Payer Mix can be viewed as interchangeable as the primary factor in overall payer mix is utilization by service line, as each service line has a different payer mix which may differ from the overall average payer mix.

Laboratory volumes were budgeted to drop significantly in FY2022 as Covid-19 cases had dropped significantly in our area during the spring of 2021 when the budget was prepared, and we did not budget for the return of other testing volumes that had dropped off during the first year of the pandemic. These assumptions proved to be incorrect as Covid-19 testing remained high until the spring of 2022 and we have seen other reference lab testing return to pre-covid levels in the past few months. The FY2023 budget assumes that at-home testing will remain the primary source of Covid-19 testing and includes the return of testing volumes (primarily reference lab and walk-in testing from outpatient physician offices in the community) in line with volumes that we have experienced since April of 2022.

Inpatient surgical cases have been significantly below budget in FY2023. These cases have a significantly higher gross charge/case due to complexity and duration when compared with outpatient cases. Volumes in the inpatient Medical Surgical unit have remained high all year as a result of, at times, increased Covid-19 volumes and a longer length of stay that we have experienced since the beginning of the Covid-19 pandemic. This longer length of stay is the result of fewer transfers from NMC to area skilled nursing facilities which have struggled with capacity restraints since the beginning of the Covid-19 pandemic. We have also increase volume and length of stay in the Intensive Care unit as a result of implementing tele-ICU in partnership with Dartmouth. Having this program in place has allowed us to treat higher acuity patients at NMC instead of transferring these patients to UVM as we had typically done in the past. This initiative has proven to be highly beneficial to the Vermont healthcare system because UVM, like all other hospitals in our region, has been at or near capacity for over a year. Keeping these cases at NMC has alleviated pressure in other areas of our system. A lack of capacity has caused us to cancel or postpone inpatient surgical cases a number of times throughout the fiscal year. We expect many of the capacity constraints to remain through FY2023 and we expect that the availability of inpatient surgery will again be constrained and so the FY2023 budget is based on actual volumes during the beginning of FY2022.

ii. We have assumed no reimbursement rate changes for Medicaid or Commercial payers. All additional Medicaid gross charges resulting from the proposed rate increase are reflected as an increase to contractual allowances. We have maintained the current percent-of-charge collection rate for commercial payers for hospital-based charges. We have included a 2.3% increase in Medicare reimbursement based on preliminary rules and recommendations from our auditing firm. This Medicare reimbursement change is independent of our rate increase request.
    1. In compliance with 18 VSA 9456 (b)(9), the increase in Medicare reimbursement reduces the need for commercial reimbursement and is reflected in the FY2023 budget as a rate increase of 9.4% instead of 9.98%, which is the rate request that would be needed with no increase in Medicare reimbursement.

| | |
|---|---|
| FY2023 NPR Budget | $ 121,093,673 |
| Less: Medicare Increase | (414,085) |
| FY2023 NPR Excluding Medicare Increase | $ 120,679,588 |
| | |
| Rate Increase Request | 9.40% |
| Medicare increase Equivalent Rate* | 0.58% |
| Rate Request with No Medicare Increase | 9.98% |

*1% Rate increase equals $713,885 increase commercial reimbursement

We have not budgeted a change in insured population in FY2023 compared to the FY2022 budget, so the value of that change reflected in the budget is $0.

ii. NPR/FPP: Utilization

a. Please see section above for discussion of changes from FY2022 budgeted to FY2023 budgeted NPR. Additional detail related to Utilization by department is shown in Appendix 3. The table below provides brief commentary on the items listed.

| | |
|---|---|
| Laboratory | Volumes return to pre-covid levels, in line with current year actual |
| Emergency Physician Fees | Reflects higher acuity with additional patient boarding in ED and volumes exceeding FY22 budget |
| Orthopedic Physician Practice | Fill vacancies with mix of Locum and employed MDs |
| Inpatient ICU & Med/Surg | Increased length of stay and higher ICU mix |
| Urgent Care - St. Albans | Return to pre-covid operations |
| Respiratory Therapy | Correlates with inpatient length of stay and increase in ICU days |
| Imaging - Georgia Satellite Location | Location was closed and has not yet reopened |
| CT Scan | Small fluctuations in ordering habits or ED volumes can generate large dollar impact. 4.2% change |
| OB/GYN Physician Practice | Reduction of 1 FTE provider, working to fill position but will not be complete in FY2023 |
| Operating Room & Supply | Discussed in previous section |
| Physician Transfers | Primary Care and Pediatric services now provided by community practices |

The reconciliation shows a $3.4 million increase in NPR related to utilization compared with Projected FY2022. The two most significant factors in this are a change in laboratory volumes as discussed earlier, and an increase in Orthopedics as we fill vacant MD positions. These two departments account for a $7.4 million change in gross revenue from the FY2022 projection to the FY2023 budget which results in an NPR change that is nearly equal to the $3.4 million shown.

Routine Fixed Prospective Payments are projected to end the year on budget and the projection also includes a change in the risk reserve recorded in FY2022 resulting in a positive impact to net patient revenue. The table below mirrors the table in the above section but reconciles the projected FY2022 value to the budgeted FY2023 value.

| Fixed Prospective Payment Summary | |
|---|---|
| FY2022 Projection | $ 24,398,596 |
| FY2022 Change in Risk Reserve | (1,921,024) |
| FY2023 Change in Risk Reserve | (2,250,000) |
| Phys Transfers | (1,537,202) |
| Other | (87,853) |
| FY2023 Budget | $ 18,602,517 |

b. The tables below show number of beds, average daily census and calculated occupancy rates for FY2021 through budgeted FY2023.

**Licensed Beds**

| Licensed Beds | FY2021 | FY2022 | FY2023 |
|---|---|---|---|
| Acute | 70 | 70 | 70 |
| Nursery | 10 | 10 | 10 |
| | | | |
| Average Daily Census | FY2021 | FY2022 | FY2023 |
| Acute | 25.88 | 32.5 | 28.33 |
| Nursery | 1.9 | 1.73 | 1.84 |
| | | | |
| Occupancy Rate | FY2021 | FY2022 | FY2023 |
| Acute | 43.1% | 54.2% | 47.2% |
| Nursery | 19.0% | 17.3% | 18.4% |

**Staffed Beds**

| Staffed Beds | FY2021 | FY2022 | FY2023 |
|---|---|---|---|
| Acute | 41 | 41 | 41 |
| Nursery | 10 | 10 | 10 |
| | | | |
| Average Daily Census | FY2021 | FY2022 | FY2023 |
| Acute | 25.88 | 32.5 | 28.33 |
| Nursery | 1.9 | 1.73 | 1.84 |
| | | | |
| Occupancy Rate | FY2021 | FY2022 | FY2023 |
| Acute | 63.1% | 79.3% | 69.1% |
| Nursery | 19.0% | 17.3% | 18.4% |

c. Commentary for each of the utilization changes shown in Appendix 3 are provided in ii. a. above.

iii. Change in Charge Request

a. Appendix 1 shows a proposed charge master increase of 11.01% for hospital-based charges (inpatient and outpatient) and a 0% change to outpatient physician gross charges. Outpatient physician reimbursement is based on a fee schedule for all payers, including commercial, so changes to these charges only increases net revenue from uninsured patients, or those with high deductible or out-of-pocket obligations. For this reason, we have not, and will continue not, to increase charges for outpatient physician services as long as the chargemaster is in line with the payer fee schedules. The weighted average increase to the chargemaster, as proposed, is 9.40%.

b. The change in charge affects commercial payers with whom we receive reimbursement on a percent-of-charge basis. This includes substantially all commercial charges in the hospital setting.

Medicare and Medicaid are unaffected by the change in charge for all services as they provide a reimbursement schedule that the hospital must accept, regardless of gross charges. As noted earlier, commercial reimbursement for outpatient physician services is based on a fee schedule and is also unaffected by the change in charge. Fixed prospective payments are not affected by the change in charge.

To calculate budgeted net patient revenue, we begin with volume assumptions by service line. For physician practices, this includes budgeting office visits and surgical cases volumes by physician. For other service lines, we set a growth rate based on trends over the past 5 years and any other factors that may be relevant in a given fiscal year. Each service line includes underlying charge by department and payer mix detail which is extrapolated proportionally with the overall service line volume assumptions. The results are aggregated by department and by payer to form the baseline values for the next budget year.

These values are split into three groups, Hospital Inpatient, Hospital Outpatient and Outpatient Physician Practice revenue, and split by payer within each of the three categories. We are then able to layer in contractual allowance assumptions by category and payer to calculate budgeted net patient revenue. Current year actual write-offs form the basis for the budgeted write-off rates. We then carve out the net patient revenue that is not affected by the change in charge (the items noted above) and allow net patient revenue to recalculate for the areas that are affected by change in charge as we adjust our proposed change in charge. Any Medicare and Medicaid increases are applied to those payer lines (2.3% Medicare, 0% Medicaid). When deciding on a final change in charge request, the primary considerations are operating expenses (and operating margin) and the net patient revenue cap as provided in the annual budget guidance.

The NPR cap calculation for FY2023 shown below.

| NPR Cap Calculation FY2023 | |
|---|---|
| Approved FY2022 | $115,925,533 |
| Less: Phys Transfers | (4,409,601) |
| FY2022 Adj Budget | 111,515,932 |
| Allowable Growth (8.6%) | 9,590,370 |
| FY2023 NPR Cap | $121,106,302 |

The final FY2023 budget request is NPR of $121,093,673, in compliance with the budget guidance, resulting in a very modest 1% operating margin.

c. 1% change in charge results in $713,885 in net patient revenue.

d.

i. We did receive the full amount of the approved FY2022 change in charge from commercial payers.
ii. We did increase charges to the full approved amount for FY2022.
iii. The rate increase was applied as submitted and noted in Appendix 2 which is a 3.59% increase to inpatient hospital services, 3.59% to outpatient hospital services, and 0% to physician practice professional fees.

iv.

a. The FY2023 budget does not include any physician practice transfers or acquisitions. The impacts of physician transfers that occurred in FY2022 have been incorporated into the appropriate reconciliation schedule and in the calculation of the FY2023 NPR cap, in alignment with the physician practice transfer schedules submitted to the GMCB early in FY2022.

v.

a. Other operating revenue is budgeted to increase by $145,000 from FY2022 to FY2023.

**Budget FY2022 to Budget FY2023 -** Grant income will be lower in FY2023 relating to Community Health Team payments that we had previously received to cover the cost of certain staff members and contract service expenses within the primary care practices. This funding, along with the expense, remains with the primary care practices after transitioning to NOTCH.

Income from the 340b Retail Pharmacy program is also reduced as a result of the transition of primary care and pediatrics. The prescriptions written by physicians in those practices and filled by a member pharmacy will not be part of the NMC 340b activity and will, therefore, reduce the amount of revenue compared to prior years. Revenue from reference lab testing on the behalf of non-NMC owned physician practices and clinics is budgeted to be $1.4 million higher than the budget for FY2022. This service has significantly outperformed the budget for two years and the FY2023 budget better reflects the actual volumes and revenue.

| Other Operating Revenue | Bud FY2022 | Bud FY2023 | Change |
|---|---|---|---|
| Grant Income | $2,505,643 | $2,017,569 | $(488,074) |
| Cafeteria & Parking | 521,523 | 662,487 | 140,964 |
| Employee Sales Pharmacy | 66,842 | 41,125 | (25,717) |
| 340B Retail Pharmacy Program | 1,456,048 | 400,000 | (1,056,048) |
| Reference Lab Revenue | 744,377 | 2,189,594 | 1,445,217 |
| Other | 395,860 | 524,898 | 129,038 |
| Total | $5,690,293 | $5,835,673 | $145,380 |

**Projected FY2022 to Budget FY2023 –** Vacant positions within NMC and within community partners who support the Blue Print and Community Health Teams has resulted in Grant Income (which matches expenses) running below budget. The FY2023 budget assumes those positions will be filled.

The projected 340b revenue includes a partial year of revenue generated by primary care and pediatric practices. As noted above, that revenue is no longer being received and is not part of the FY2023 budget.

In FY2022, NMC leased space and staff to the State of Vermont to operate a Covid-19 resource center. The projection includes $292,000. NMC also received $325,000 in Provider Relief funding. Both are included in the "Other" line in the Projected FYF2022, totaling $617,000. Neither will continue in FY2023.

| Other Operating Revenue | Proj FY2022 | Bud FY2023 | Change |
|---|---|---|---|
| Grant Income | $1,540,267 | $2,017,569 | $477,302 |
| Cafeteria & Parking | 497,642 | 662,487 | 164,845 |
| Employee Sales Pharmacy | 39,581 | 41,125 | 1,544 |
| 340B Retail Pharmacy Program | 831,181 | 400,000 | (431,181) |
| Reference Lab Revenue | 2,127,925 | 2,189,594 | 61,669 |
| Other | 1,239,842 | 524,898 | (714,944) |
| Total | $6,276,438 | $5,835,673 | $(440,765) |

Non-Operating revenue consists primarily of the results of investments and is inherently volatile. For this reason, we budget $0 for both realized and unrealized gains on investments. The budget for FY2023 is equal to the budget for FY2022. The table below compares Projected FY2022 to Budget FY2023 with notes below.

| Non-Operating Revenue | Proj FY2022 | Bud FY2023 |
|---|---|---|
| General Donations | 10,659 | 10,000 |
| Income from Investments | (3,831,152) | 877,760 |
| Income from Funded Depreciation | 226 | 396,158 |
| Net Income/Loss on Rentals | 437,543 | 319,977 |
| All Other | 1,108,867 | (57,560) |
| Total | (2,273,857) | 1,546,335 |

Income from Investment and Income from Funded Depreciation are entirely based on market returns of investments. All Other includes investment fees and the change in market value of the fixed portion of our bond swap agreement. The value of this goes up when interest rates go up which is why the FY2022 result is positive. The values in these lines for the purpose of the projection is equal to the year-to-date value as of April.

Net Income/Loss on Rentals will exceed budget in FY2022, but this is due only to the timing of property tax invoices. The FY2023 budget is a more accurate reflection of ongoing activities.

b. Appendix 6 shows Covid-19 relief funds received beginning October 1, 2020. The total of all funds is $4.3 million, and all funds were recorded as revenue in the fiscal year in which they were “earned”. No Additional Covid-19 relief funding has been budgeted for FY2023 as there is no indication that any other relief program will occur.

c. No Additional Covid-19 relief funding has been budgeted for FY2023 as there is no indication that any other relief program will occur.

d. 340b revenue is currently unstable as described above. Grant income has higher variability than the remaining lines, however, fluctuations in grant income are match with equal fluctuations in the associated expense so this variability is not of concern. The remaining lines are stable.

vi.

a. Operating Expense Reconciliation Budget FY2022 to Budget FY2023

| Expenses | Amount | % over/under |
|---|---|---|
| FY 2022 Approved Budget | $ 119,163,778 | |
| New Positions | 718,447 | 0.60% |
| Inflation | 10,555,210 | 8.86% |
| Fringe | 701,082 | 0.59% |
| Locum tenans (MDs) | 70,605 | 0.06% |
| Drugs | 240,627 | 0.20% |
| Health Care Provider Tax | 205,291 | 0.17% |
| Supplies | (1,870,317) | -1.57% |
| Physician Transfer | (6,580,086) | -5.52% |
| Purchased Services | 1,986,076 | 1.67% |
| Depreciation | 826,845 | 0.69% |
| Insurance & Utilities | 209,329 | 0.18% |
| Other/Misc | (556,464) | -0.47% |
| FY 2023 Proposed Budget | $ 125,670,423 | 5.5% |

Total expenses have increased by $6.5 million from the FY2022 budget to the FY2023 budget. This includes the net effect of the physician transfers which reduced expenses by $6.6 million. Excluding physician transfers, total expenses have increased by $13.1 million from FY2022 budget to the FY2023 budget. Inflation is the primary driver behind expense growth from FY2022 to FY2023, totaling $11.25 million. A detailed discussion of inflation is found in part c. below.

All other expenses combined for a modest overall increase of 1.6%.

**Purchased Services –** We have transitioned from an employed Hospitalist program in Med/Surg and ICU to a contracted model. This transition occurred at the start of FY2022. Employees of NMC were able to transition to employment with the contractor and remain at NMC.

We have struggled with staffing the Environmental Services department and have transitioned to a contracted model for the management of this service. Leaning on a company that specializes in environmental services within healthcare facilities, we have been able to leverage a larger hiring pool, access to temporary employees and the use of best practices to improve the services that we are able to provide.

The expense for the Hospitalist program and the Environmental Services manager position moves from the Salaries category to the Purchased Services category.

**Depreciation –** FY2022 depreciation was budgeted to be low compared to prior years under the assumption that capital spending would be reduced as a result of continued financial pressures from the Covid-19 pandemic. This proved to be incorrect as additional capital needs arose after delaying purchases in FY2021 and following an internal quality and safety survey that identified additional capital needs. The FY2023 budget reflects the spending level of FY2022 and the budget FY2023 capital spend which is in line with historical amounts.

**New Positions –** The description in this category may be misleading as it is incomplete. The FY2023 budget includes salary savings resulting from the transition of the Hospitalist and Environmental Services manager to contract services. The savings is included in this number. The net change related to non-MD positions in the FY2023 budget is a savings of $406,000.

MD positions account for an offsetting increase of $1.1 million. This too is misleading as the MD positions added to the FY2023 budget are not new, but rather filling vacant positions or replacing Locum Tenen physicians that were included in the FY2022 budget. This includes two orthopedic surgeons that have been vacant and partly filled with a Locum Tenen, and OB/GYN position that has been vacant for all of FY2022 with a portion of that absence covered by a Locum Tenen, and an ENT physician that was away on military leave for a portion of FY2022 and replaced by a Locum Tenen during that absence. Candidates for all of these positions have been identified and start dates are spread throughout FY2023 which results in the continued use of Locum Tenens in some areas, and also results in increased salary costs for physicians.

**Supplies –** In total, the major increase in supply cost is solely due to inflation. As discussed previously, we have budgeted for Covid-19 testing volumes within the NMC laboratory to decrease substantially compared with the prior year. These tests carried a disproportionately high cost of supplies, and those supplies will no longer be needed in

the same quantity. The reduction in laboratory supplies related to Covid-19 testing is $1.8 million.

Changes in all other categories are minor.

b. Operating Expense Reconciliation Projected FY2022 to Budget FY2023

| Expenses | Amount | % over/under |
|---|---|---|
| FY 2022 Projection | $ 126,863,621 | |
| New Positions | 224,959 | 0.2% |
| Inflation Increases | 3,194,094 | 2.7% |
| Fringe | 38,216 | 0.0% |
| Locum tenans (MDs) | (683,536) | -0.6% |
| Health Care Provider Tax | (38,155) | 0.0% |
| Supplies | (792,070) | -0.7% |
| Physician Transfer | (3,675,322) | -3.1% |
| Purchased Services | 268,821 | 0.2% |
| Depreciation | (66,565) | -0.1% |
| Insurance & Utilities | 504,840 | 0.4% |
| Other/Misc | (168,480) | -0.1% |
| FY 2023 Proposed Budget | $ 125,670,423 | -0.9% |

Total expenses are budgeted to come down by $1.2 million compared with the FY2022 projection. Excluding Physician Transfers, expenses are budgeted to increase by $2.5 million, or 2.0%.

Changes from projected FY2022 to budget FY2023 can be attributed to partial year impacts in FY2022 being budgeted as full year impacts in FY2023 for the items discussed in a. within the categories of New Positions, Locum Tenens, Supplies, Physician Transfer, Purchased Services and Depreciation.

The projection for Insurance in FY2022 is comparatively low. Many changes occurred at the end of FY2021 and the beginning of FY2022 related to physician transfers, transitioning to a contracted Hospitalist model and with a number of physician vacancies. The FY2023 budget was provided by our insurance carrier based on the current roster of providers with a small allowance for unexpected expenses.

c. Inflation is the focal point of the expense budget for FY2023. Below is the detail by category as submitted in Appendix 4.

| | % Increase | $ Increase |
|---|---|---|
| Wages/Compensation - Medical Staff | 1.0% | $ 92,491.00 |
| Wages/Compensation - Non-Medical Staff | 20.4% | $ 8,361,504.00 |
| Drugs | 16.4% | $ 331,126.00 |
| Medical Supplies | 16.1% | $ 1,052,970.37 |
| Non-Medical Supplies | 21.1% | $ 717,118.40 |
| All Other | 0.0% | $ - |
| Other (Please Specify) | | |
| Other (Please Specify) | | |
| Total | % | $ 10,555,209.77 |

It is important to note that the majority of the inflation expenses included in the FY2023 budget have already been incurred through price increases in FY2022. In the reconciliation from budget FY2022 to budget FY2023, the inflation value is $10.5 million while in the reconciliation from projected FY2022 to budget FY2023, the inflation value is $3.2 million, indicating that $7.3 million of inflation has already been absorbed into the actual FY2022 expense projection.

**Wages – Non-Medical Staff –** Wage inflation has several components and can become complex. It is important to ground the discussion in the idea that inflation is the increase in cost for a defined good or service. In this case, the defined service is an hour of labor. The factors that contribute to a realized and budgeted increase in the overall hourly wage of non-MD labor include: shift from employed labor to Traveler (temporary contracted) labor, increase in base pay and increased share of hours paid as overtime or shift incentive.

The most straight forward method of calculating the overall change in the cost of an hour of labor is to aggregate all non-MD labor costs, including the cost of Traveler contracts, and divide by the number of non-MD worked hours.

| | Avg Hourly Cost of Non-MD Labor |
|---|---|
| Budget FY2022 | $34.49 |
| Projected FY2022 | $40.52 |
| Budget FY2023 | $41.53 |

The result is that the average hourly cost of non-MD labor has increase by $6.03 per hour when comparing budget FY2022 to projected FY2022. This is a cost that has already been realized and accounts for $7.17 million of the $8.36 million increase from budget FY2022 to budget FY2023.

Traveler costs are the most significant piece of this. Total Traveler costs were budgeted to be $2.6 million in FY2022. We are currently projected to incur Traveler costs of $10.3 million and have budgeted $8.7 million in FY2023. Hiring permanent staff continues to be a challenge in many areas. We have budgeted conservatively at 25 FTEs of Travelers in FY2023 compared with a projection of 27.4 in FY2022. We have begun to see the hourly rate in traveler contracts come down relative to the highs experienced over the last two years. The reduction in the total cost of Travelers reflects this reduction in the hourly rate which is stemming from an increased availability of Travelers as the demand has begun to decline across the country.

During FY2022, in order to maintain competitiveness in our compensation for positions in high demand, unbudgeted mid-year pay increases were issued. These increases were targeted toward positions where market demand had pushed compensation rates well above those in place. Significant increases went to areas such as environmental services, kitchen staff, radiology and laboratory technologists and nursing staff.

The FY2023 budget includes additional increases that are significant compared to prior years. We are still behind on some of the positions with high market demand noted above, and inflation has made it important for us to conduct a full compensation review of all positions to ensure that competitive wages are offered.

We have experienced the high cost of staff turnover and vacancies over the last two years, and it is important to take steps to combat this. Paying higher wages to our staff in place of paying extremely high rates to traveler companies is one strategy. We have implemented a retention bonus system that reward individuals for remaining with NMC for a period of at least 3 years. We are working to implement a program to allow staff to take on traveler assignments for a portion of the year to capitalize on the strong market demand for their services, and provide a home base for them to return to at NMC. We continue to look for new strategies increase retention and are willing to be creative in our approach.

**Supplies –** The FY2023 budget includes a 5% increase in supply costs relative to projected costs. For the supply categories listed, the majority of the increased unit costs have already been realized in FY2022. We utilize third-party survey data that is compiled by our contracted management company, QHR. The range of the FY2023 forecast was broad in many categories with most being centered around 5% which is what we implemented. The projections accounted for inflation that had already been realized at the time of publication in the spring of 2023 and represented a projection of additional inflation.

d. We do not currently have any targeting cost savings initiatives in place. Our strategic and operational plans have a focus on high reliability, safety, and quality. The success of these initiatives over time will increase operational efficiency, improve quality outcomes and reimbursement associated with those outcomes, and most importantly, improve the care that we are able to provide to our community. As of the time this was written, we have just achieved 200 days without a single catheter-associated urinary tract

infection. As we gradually shift the focus and culture of the organization, we are already beginning to see real and measurable improvements in safety and quality.

e. Total operating expenses are a key factor in determining the requested NPR in each annual budget cycle. The FY2023 budget is particularly challenging in this regard. The GMCB has allowed for the largest NPR growth since its inception, and yet, inflation on its own has grown ($10.55 million) beyond the allowable growth in NPR ($9.6 million). When preparing each operating budget, we attempt to establish one that will generate positive cash flow so that we can maintain our current capital equipment and buildings and responsibly save funds to pay for significant renovation projects when the need comes (such as the CON recently approved for the Emergency Department renovation). To accomplish this, we target a 3% annual operating margin. Given the constraints of the NPR guidance, this was not possible in FY2023. Our calculations suggest that a 1% margin results in a nearly breakeven cash position in FY2023 and this is what the proposed budget includes.

vii.

a. Operating margin was discussed in preceding paragraph. Multiple years of losses or no positive cash flow will be detrimental. We also know that in requesting the full 8.6% growth in NPR in FY2023, we will need to be prepared for no growth in NPR in the FY2024 budget. In order to absorb that outcome and avoid another year with no, or with negative, cash generated, expenses will need to be reduced. Traveler costs is the area of focus as it is the only expense line with a large enough component that can be impacted by management to be able to generate a material change in operating margin through improvement. As noted previously, we are implementing our own strategies and we are including this item in our strategic and operating plans for FY2023 under the pillars of financial sustainability and employee engagement.

b. The budget does not include support or a need to support any other entity or subsidiary.

## Equity

i. We contracted with national expert in Diversity and Equity training (and UVM professor) Maria Mercedes Avila, Ph.D. to conduct training for leadership, staff, and providers on systemic racism. Feedback from those who participated was very positive and set the stage for NMC to advance substantive Diversity, Equity, and Inclusion (DEI) efforts.

As we update NMC’s FY22-24 Strategic Plan, based on our planning retreat earlier this year, NMC is incorporating the advancement of Diversity, Equity, and Inclusion into our Engagement pillar. It will then become a specific section within NMC’s Annual Operating Plan beginning in FY23. This ensures prioritization of the effort and regular updates on progress from the Senior Leadership Team to NMC’s Board of Directors.

We along with our community partners took a much more intentionally inclusive approach to the Community Health Needs Assessment for our area for 2022-24. We worked with the

Vermont Center for Rural Studies and supplemented quantitative health data with qualitative input from key stakeholders and special populations to be more inclusive of diversity and more reflective of our community. This included formal interviews and focus groups with members of the Abenaki Nation, BIPOC, LGBQT+, Migrant Farmworkers, Senior Citizens, Active Military, People faced with homelessness and food insecurity, etc.

We have been without permanent Human Resources leadership since August of 2021. We recently recruited Ryan Hamel as our new Chief Human Resources Officer and he will start with our organization July 11, 2022. Ryan has a strong background in DEI work and that was one of the aspects of his experience which made him our candidate of choice. Ryan brings related lived experience to the role and we are excited to have him join our team.

We are currently working through a formal process to select a consulting partner to help inform and guide our efforts to advance DEI both as an employer and as a care provider. Our interim CHRO screened seven possible firms and four were advanced to our Senior Leadership Team. Those firms will be doing individual presentations in June and July, after which Senior Leadership will advance two as finalists. We have assembled a cross-sectional team of staff, providers, and management who are personally interested in the advancement of DEI at NMC who will serve as the selection committee to determine which firm we will partner with to advance this strategic priority. We will then work with this partner and our entire organization on DEI efforts relating to education, recruitment, retention, care provision, resources and policies, system changes, internal/external engagement, and communications.

As we formed our new Patient Advisory Committee to provide another way for the voice of our patients and our community to be included in decision-making, we intentionally sought out a diversity among membership. We are pleased with the composition of the initial group and look forward to working with them as we continue to improve quality of care and service to our community.

## Risks and Opportunities

i. The risks and opportunities in the FY2023 budget have been discussed previously with regard to the requested NPR growth and the cost of travelers. It is a risk to request all of the allowable NPR growth in the first year of the two-year guidance because we know that we must plan to move forward into FY2024 with no additional NPR. Traveler expense is both a risk and an opportunity.

   The FY2023 budget includes a slight reduction in the need for traveler services and a reduction in the rate of traveler services. Current trends support these assumptions, but we also know that the market can change quickly. If we are unsuccessful in reducing our reliance on traveler services or in reducing the rate of these services, it could result in a net operating loss for FY2023. Furthermore, it could put us in a very unfavorable financial position as we move into FY2024 without the ability to further increase revenue.

Traveler expense also presents the best opportunity for financial and operational success in FY2023 and the best opportunity to set us up for a sustainable budget in FY2024. Reducing reliance on travelers and strengthening our own workforce will have a positive financial impact, but more importantly, will advance our strategic focus on safety and quality. Traveler staff are all well trained prior to arrival and are oriented at NMC before beginning independent assignments. Even still, they will be departing after a few weeks to months and will take the training and NMC culture with them. Building our workforce with permanent staff who become entrenched in the culture of safety and quality will better advance those goals in the long term.

If we are successful in our efforts to reduce the reliance on traveler staffing in FY2023 and continue that trend into FY2024, then we expect to be able to present an FY2024 with a positive operating margin without the need for additional NPR.

ii. One of the bright spots of the Covid-19 pandemic has been the use of tele-health services in the outpatient physician offices, inpatient units (tele-ICU), and emergency department (tele-Stroke). We will continue to seek out partners to expand this service and to increase access to a variety of specialties and services in our rural community. On the flip side, Covid-19 related protocols have added cost and delays. We understand that these protocols and requirements are necessary to keep staff and patients safe.

iii. The Covid-19 pandemic has highlighted the interdependency of each organization within the Vermont healthcare system. As our academic medical center reaches capacity, it is critical that our community hospitals have the capacity and skill to extend the acuity of patients that they treat. As community hospitals reach capacity, it is critical that skilled nursing facilities have beds and staffing to receive patients. As skilled nursing facilities reach capacity, it is critical that home health agencies, primary care physicians, behavioral and mental health providers and other community-based healthcare organizations are strong, fully staffed and highly skilled. Policy conversations over the past two years have centered around the idea of specialization and centralization with the elimination of services in our rural communities in the name of efficiency and cost savings. The Covid-19 pandemic has shown us clearly that this is the wrong course of action and that the focus should be on the formation and strengthening of partnerships among providers throughout our region so that high quality healthcare services are available in every rural corner.

NMC implemented tele-ICU in partnership with Dartmouth in FY2021. The program has matured in FY2022 and has proven to be a valuable resource to patients in Franklin and Grand Isle Counties, and a valuable resource to the healthcare system in Vermont, by reducing the need for additional transfer requests to UVM or Dartmouth when they are already at or near capacity. Because of the success of this program, we are expanding our partnership with Dartmouth by offering a tele-neurology service that will allow higher acuity stroke patients to remain at NMC.

From a facilities standpoint, we have increased the number of negative pressure rooms which will position us favorably for any future Covid-19 outbreaks in our region, or the appearance of any other communicable disease in the future. This has informed the updated plan for our

Emergency Department renovation which will transition us from beds separated by curtains to all private rooms with negative pressure capabilities. This will improve the patient experience, improve patient privacy, and reduce the risk of hospital acquired conditions within the emergency department.

iv.

a. We will begin FY2023 with physician vacancies in Orthopedics (2) and OB/GYN (1). Candidates for these positions have accepted the positions and will begin at different times throughout FY2023. Vacancy rates below compare open positions currently advertised against the FY2022 budget. Vacancies by this measure do not necessarily indicate that these hours are not being worked. In most cases, these hours are covered by travelers, overtime or an increase in hours from part-time to full-time for other employees.

| **As of June 28, 2022** | | | |
|---|---|---|---|
| Position Type | Posted FTESs | Budgeted FTEs | Vacancy Rate |
| RN | 37.7 | 95.69 | 39.4% |
| All other Non-MD | 39.2 | 509.5 | 7.7% |
| All Non-MD | 76.9 | 605.2 | 12.7% |
| Specialty Physicians | 3.0 | 16.0 | 18.8% |

b. Historical turnover data is not available in the precise format requested. The table below shows the data that we were able to gather going back to FY2018 with position breakdowns that are aligned with the request as closely as possible.

| Position Type | FY2018 | FY2019 | FY2020 | FY2021 |
|---|---|---|---|---|
| Specialty MD | 0.0% | 16.7% | 0.0% | 8.3% |
| RN | 19.6% | 32.5% | 14.5% | 32.6% |
| Total | 18.2% | 23.7% | 21.1% | 22.9% |

c. Investment in recruitment and retention come from hospital reserves, impacting operating margin and days cash on hand. There are no outside funding sources.
To impact recruitment, we have made unbudgeted increases to base wages, offered unbudgeted signing bonuses, and increased the use of referral bonus available to other staff members that are beyond the levels budgeted in FY2022. Retention bonuses are now available to staff members in key positions, and new hires into these positions are enrolled in the retention program. These unbudgeted retention bonus have been paid in FY2022 and have been incorporated into the FY2023 budget. Each of these elements increases the cost of labor and is included in the inflation calculations.
We have expanded recruitment strategies to include all local media types and social media and held an in-person job fair. We briefly partnered with a tech firm that

specializes in targeted advertising for recruitment purposes but discontinued this program as it did not produce the desired results.

d. The impact of nursing travelers has been discussed in other sections and the impact of temporary physicians is currently minimal.

e. Calculations as requested:

| | FY2023 Budget | |
|---|---|---|
| Non-MD Positions | Including Travelers | Excluding Travelers |
| Salary per FTE | $86,665 | $74,729 |
| FTEs per Adjusted Occupied Bed | 4.53 | 4.33 |
| Salary as % of NPR | 40.8% | 33.6% |

| | FY2023 Budget | |
|---|---|---|
| All Positions | Including Travelers | Excluding Travelers |
| Salary per FTE | $99,436 | $88,562 |
| FTEs per Adjusted Occupied Bed | 4.72 | 4.52 |
| Salary as % of NPR | 48.7% | 41.6% |

Values are shown with and without travelers and physicians. Values that include.

## Value Based Care Participation

i. NMC is participating in all value-based programs that are available.

ii. The Quality department has built registries and monitors compliance for the quality metrics for primary care, pediatrics and some medical specialty clinics. These included:

Hypertension
Diabetes- Uncontrolled
Well Child Checks for 11-12 yo
Tdap for 11-12 yo
Colonoscopies
Mammograms
High ED utilizers
Children with ADHD who are on meds and haven't been seen in 1 yr
Appropriate use of antibiotics with pharyngitis
High Risk Patients on Care Plans

NMC recently created a Director of Population Health Programs and Strategy position as a cost center which supports two additional staff. This team is tasked with working with all of our community partners, to include primary care providers, in disseminating data regarding our

value based care needs and care coordination needs. This team is also NMC's point for establishing an Accountable Community for Health (ACH) within our HSA.

iii.

A.

Aging population of HSA is driving our population health priorities. We are working to ensure that the medical care that this population requires is available within our HSA and coordinated within our ACH. Specific areas of focus are:

- Diabetes care
- Acute and post-acute stroke services
- Cardiology services
- Orthopedic care
- Physical Medicine and Rehabilitation Care

Lack of safe, therapeutic crisis care for behavioral health patients.
No local availability of midwifery care.
Transportation barriers

B. NMC intends to utilize our newly forming ACH to convey our Population Health priorities, and to develop those priorities with our community stakeholders.

C.

Establishment of local high-quality services lines to support our community needs:

- Establishment of a Primary Stroke Center at NMC.
- Expansion of our cardiology services and outreach.
- Expansion of rehabilitative services lead by a physical medicine and rehabilitation provider team.
- Recruitment of an endocrinologist and further investment in certified diabetes educators and registered dieticians.
- Building a high quality comprehensive orthopedic platform.
- Provide a secure 4 bed behavioral health unit within NMCs new ED. Partner with NCSS to provide both diagnostic and therapeutic services for patients in crisis while in transition from our ED to either supported community plan or inpatient behavioral health placement.

Working through the ACH;

- Address transportation, housing and food insecurity issues confronting our diverse communities
- Continue to build out a resilient community approach to address behavioral health and substance abuse needs.

iv. NMC has communicated the results of our HSA quality reports to our providers through our dedicated quality team. With the advent of our ACH and our partnership with NOTCH (FQHC) we will distributing the data through these channels on a go-forward basis.

v.

A. We received shared savings and will be using these funds to advance our strategic plan and strategic priorities as discussed, which align with the principles and goals of healthcare reform.

B. NMC has experienced and paid shared losses in the past. The challenge with meaningful changes remains the lack of growth in attributed lives and lack of meaningful participation from commercial payers.

Date provided from OneCare VT shows that since inception, including projections for calendar years 2021 and 2022, shows that we are on track for total shared savings of $1.86 million against total dues paid of $5.7 million, so participation in the program is, and has been, an investment by NMC, one which has not yet resulted in a financial return. Investments in healthcare reform are coming from days cash on hand and operating margin. This reality means that NMC and its Board will continue to carefully evaluate ACO participation each year.

## Capital Investment Cycle

i. Goals of the capital investment cycle include the routine replacement of equipment that has reached end of life, maintenance of physical and technology infrastructure, investments in strategic initiatives and major renovation and construction projects. Capital expenditure levels are set along with operating margin, with consideration of cash flow. It is important to generate positive cash flow, after routine capital spending, to fund major capital improvement projects that do not occur on an annual basis. Covid-19 resulted in a reprioritization of some capital projects and necessitated changes to the planned emergency department renovation that recently completed the CON process. We had delayed a project to relocate and expand our bulk oxygen supply tank for a few years and Covid-19 caused that project to become a high priority as the demand for oxygen and risk involved in not having bulk oxygen available became high. This project was completed in FY2021 and resulted in the replacement of a CT scanner being delayed. The CT scanner is now slated for purchase in FY2023. As presented in the recently revised and approved CON for the emergency department, all rooms in the emergency department will be capable of being negative pressure rooms.

ii. None of the items budgeted in FY2023 have been identified as requirements for regulatory or accreditation purposes.

## Supplemental Data Monitoring

i.

a. The values in the database appear to follow the general trend of net patient revenue by quarter, however, the values are generally understated by 15%-20% in each quarter with a minimum of a 5% understatement and a maximum of a 25% understatement.
b. The description of the data does not provide enough detail to determine what may be missing that would account for a variance of this size.

ii.

a. The data presented appears to be generally consistent with our internal data and expectations. NMC has a relatively high inpatient Medicare reimbursement rates due to the Medicare designation as a Sole Community Hospital which tends to increase cost coverage and collection as a percent of gross charges for those services. NMC's commercial percent of charge contracts have tended to compare favorably to other hospitals in Vermont although NMC has been one of the lowest priced hospitals in Vermont which reduces outpatient gross charges per case. Payments per delivery are quite low at NMC which is consistent with a high Medicaid payer mix for labor and delivery services.

iii.

a. The Social Vulnerability Index is not a measure that directly factors into our strategic planning or budget assumptions. The Community Health Needs Assessment is the primary document used to shape priorities for the organization to identify and meet the needs of our community. It is likely that the factors that drive the calculation of the Social Vulnerability Index will also be factors that drive needs identified in the Community Health Needs Assessment.