NORTH COUNTRY HOSPITAL - BUDGET 2022 – NARRATIVE

A. EXECUTIVE SUMMARY

Last year at this time we were submitting a budget faced with a world of unknown. We had based our budget on year to date February actuals and we have been able to surpass those amounts.

North Country Hospital was very fortunate in regard to patients returning to receive care. Our revenues returned to mostly budgeted levels by August 2020 and have continued in total to be at or above budget since. The section below discussing utilization will explain in more detail. We also returned staff from furloughs as the volumes required. This also helped the hospital to have a better financial outcome.

Revenue associated with COVID-19 was either lab revenue or other operating revenue from the State of Vermont for vaccinations or the CIC for testing. Expenses related to covid were staffing for the testing and the vaccination clinics and screeners. Other large costs were for resulting the covid tests, in house lab supplies, and the cost to pay outside labs. The net effect of this is shown in Appendix 5.

In the Fall we created a COVID-19 testing site using a leased mobile unit on the hospital property. This testing site has been used actively since then. The number of tests during the last couple of months have steadily dropped. We currently offer testing five days a week. Part of this testing has been in conjunction with an agreement with the C.I.C.

In December we started vaccinating our own staff and community health care providers. We expanded the days and times of vaccinations based on supply and the specific direction from the State of Vermont. We then became a mass vaccination site, open five days a week for our community through June. Since then, the State of Vermont then determined that the appointment slots were not being filled so therefore the demand for the vaccinations have dropped to a level where we now offer shots one day a week. We continue to work with our primary care offices as the next transition for vaccinations. We also are working with the state currently on another vaccination and testing agreement.

North Country Hospital did not realize the volume of COVID-19 patients other hospitals in the state have did. This Spring we saw more inpatients than we have since the beginning of the pandemic. At one point we had seven COVID-19 inpatients. We created an isolation section of our MedSurg floor to accommodate these patients. It allowed for less donning and doffing for the employees and patients were allowed to ambulate more which is good for their care. It was positively received by both employees and patients. Due to the small volume of patients we cared for and conservation measures we implemented early, we were adequately stocked with all personal protective equipment.

In our emergency room we set up cubicles to allow us to separate and triage patients with respiratory symptoms. This is still in place and will be ongoing for the near future.

B. YEAR-OVER-YEAR CHANGES

I. NPR/FPP: Overview

Budget 21 compared to budget 22 the hospitals net patient revenue in total increased by 7.3%. Budget 21 to the 21 projection reflects a 3% increase in net patient revenue.

a. Referencing Table 1 NPR variances:

b. Fixed Prospective Payments - from budget 21 to projection 21 was $4,386,908 and from budget 21 to budget 22 is $4,250,524 because of the expanded Medicaid population that began in January 2021 and was not incorporated into budget 21.
c. Reimbursement / Payer Mix – All the reimbursement percents and payer mix for budget 22 is based on actual year to date April 2021. Under total Medicaid there shows an increase of $4,250,524 under FPP and under reimbursement a decrease of $4,044,949. This is the reflection of the move from traditional Medicaid to the expanded Medicaid population under the ACO. From budget 21 to budget 22 there was a .44% decrease in the Medicaid payer mix. The small decrease of $315,310 under Medicare is a product of a charge increase not increasing net revenue for the inpatient portion of Medicare revenue. The $536,687 decrease in commercial reimbursement is a mix of a decrease in the Blue Cross Blue Shield payer mix and a decrease in actual reimbursement from commercial payers in total.
d. In regards to the analysis of 18 V.S.A. 9456(b)(9), When taking into account the shift to FPP payments for Medicaid with the change in reimbursement and payer mix the net change is a decrease of $646,422 which is as explained above made up of a decrease in commercial net revenue of $536,687. The bad debt/free care has increased by $561,263 which results in an overall change of only -$85,159 in reimbursement/payer mix from budget 21 to budget 22.
e. Please refer to Appendix 5 for detailed financial information. The largest impact currently and for budget 22 is the expected large decrease in testing revenue based on decreased demand. Due to the anticipated large decline in testing volumes due to vaccinations the revenue budgeted for testing for 22 is only equal to the cost of the FTE to staff a testing clinic. We are working on operationalizing vaccinations into our practices. There has been no added expense or revenues added for vaccinations. Please refer to the executive summary for further explanation of North Country Hospitals testing and vaccination clinics.

II. NPR/FPP: Utilization

a. See part B.
b. From budget 21 to budget 22 we are expecting a revenue increase of $3,240,990 without the rate increase. From budget 21 to projected 21 the utilization change was an increase of $2,867,464. In reference to Appendix 3:

Surgical Services – Budget 22 is the same as projected 22 reflecting our actual. Surgical Services revenue is $4,151,770 more than budget 21 due to volume increase mainly attributed to one of our general surgeons who did a colorectal fellowship and increased surgeries from our Urologist that was added in FY20 and has been building his practice.

Emergency Room – Emergency room volumes dropped enormously starting in March 2020. These volumes have been very slow to return and have not increased to the pre-COVID-19 volumes. Budget 22 reflects a small increase from our current volume due to a small increase in patient seen over the last couple of months.

Nuclear Medicine – Nuclear medicine has increase due to the fact we now have a full-time nuclear medicine tech and we are also doing nuclear stress tests and other procedures in which we did not have a tech time to do prior.

Laboratory - The budget 22 revenue reflects a large decrease in COVID-19 testing revenue but even with that removed we have seen an increase in lab testing and the budget 22 is based on our actual volume.

Cat Scan – Revenue is based on actual volume we have been seeing consistently year to date.

Respiratory Therapy - This is based on year to date actuals. May be low due to mask wearing and infection control measures that resulted in minimal flu and other respiratory type illness.

III. Charge Request

a. A charge request of 5.6% is requested on hospital charges and a 0% charge request increase on physician practice charges which results in a 4.9% overall increase for North Country Hospital.

Additional costs associated with a computer conversion accounts for 1.56% of the requested rate increase. Please see section VI. for operating expenses in more detail.

b. The charge increase affects gross revenue equally by payer. The effect to net revenue by payer is as follows:
   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. The amount of net revenue increase for 1% of charge increase is approximately $559,000.

IV. Adjustments

a. None

V. Other Operating and Non-Operating Revenue

a. Other operating revenue has decreased by $1,151,962 from budget 21 to budget 22. This is mainly due to the uncertainty of the 340b program. Non-operating revenue is $253,929 higher from budget 21 to budget 22.
b. Please refer to Appendix 7.
c. There is a potential of additional funds from the American Rescue Plan Act for medically underserved areas including rural communities such as our own. The timing is slated for later this summer for rural health clinics that meet the requirements. Currently, we do not know if we are in that category.
d. The largest piece of the other operating revenue is the 340b revenue. This is also the area where there could be the most risk. 340b revenue has decreased during this fiscal year. We budgeted less than budget 21 and a million dollars less than actual 2021 to help lessen the amount of risk. The recent correspondence from HRSA to pharmaceutical companies are requiring them to offer the 340b pricing and is very positive.

VI. Operating Expenses

a. The total expense increase from budget 21 to budget 22 is $4,572,952. This amount includes $876,000 system conversion costs. We will be converting to Cerner for our EMR system in May 2022. This budget includes $700,000 of one time cost associated with this conversion including interface building, data conversion and data archiving. The balance is staff costs that will be ongoing due to the change from athena and the duties that athena did that will now be done in house again. In regards to budget 22 and COVID, the only ongoing costs are salary and benefits for 1 FTE to perform COVID testing.
b. Regarding expense changes from budget 21 to projected, one of the large changes in health insurance cost. North Country Hospital is self-insured, and we have seen a large increase over budget in claims, this increase also carries over into budget 22. Budget 21 to projected 21 salaries are slightly less. One other area that of differences is in our contract services. Two main factors effected from this: added cardiology physician time and purchased lab costs for COVID-19 results. Traveler costs have decreased from budget 21. Supply costs are also about a million higher than budget 21 in our projection. The effect of these variances is that the amounts have been brought forward into budget 22 because the projection is based on actual. The only exception would be the cost of COVID-19 result testing that was reduced significantly due to the projected decrease in volume.
c. The inflation category with the most significance is the wage increase. The salary increase includes a 2% wage increase across the board, market adjustments for necessary key positions: the majority in nursing, and dollars to increase our employees to a minimum of $15.00/hour and the ripple effect from

that. We did not apply any more inflation increase on supplies and drugs since these expenses are based on year to date for the budget 22 and large cost increases of 10-25% have already been realized in those numbers. Benefits, insurance, and utilities are projected to increase at rates comparable to prior years.

d. Cost saving initiatives include remaining part of N.E.A.H. for group pricing, continuing to find ways to "grow our own" staff, mostly in nursing, to avoid locum costs and to give our employees a career path, analyzing our staffing models to be ensure we have the right skill mix and all involved are working to the top our their licenses, and looking to leverage new computer system for changes in workflow to also either reduce salary costs or repurpose to other areas.

VII. Operating Margin and Total Margin

a. The budget 21 operating margin was 1.72% and budget 2022's margin in 1.98%. Due to the volatility of the marking total operating margin does not play a large part in our decision making during the budget process. We seek to maintain a 2% margin in order to successfully implement a new EMR, address competitive pay rates for our employees, and to continue to address the added needs of an aging plant and equipment.

b. No

C. RISKS AND OPPORTUNITIES

I. Risks for FY 2022 budget are very similar to risks in prior years. The potential of reimbursement decreases and 340 be program decreases are two major risks on the income side. The FY22 budget takes these risks in account by being conservative but realistic in both areas, net revenue reflects a payment percent with no expected increase and 340b revenue is at the budget 21 level. In regards to expenses, maintaining appropriate staffing is the most risk. There is much more competition for nursing staff. The hospital is competing with schools, long term care facilities, and prisons for quality staff. Budget 22 reflects a realistic combination of salary and traveler costs as we project currently. We also have budgeted for larger amounts of salary increases to attract employees by offering competitive wages. There is always the risk of having to use more travelers at a much higher rate than what we budgeted for. The hospital will also be converting to a new EMR in May of 2022. There are both risks, decrease of short term productivity, revenue, and cash flow loss, along with the opportunity for better patient process, care, and monitoring along with many other things on both sides of the equation. The aging of the hospital itself is a risk, as stated above we are investing more capital into this. We also will be submitting a certificate of need for 42,000 square feet of new and additional space. This upcoming certificate of need request has no impact of the FY 2022 Budget.

II. The current impact of COVID-19 on access to care is minimal. All services are open and fully operational. We continue to offer telehealth to patients if that is the right fit for them, but we saw a significant decline in the use of telehealth over the summer of 2021. Patients were asking to come back into our physician offices. Some of the safety protocol we implement and still have in place is one point of access to the hospital for all patients and visitors and minimal number of access point for staff. This allowed screening of all patients, visitors, and employees that we continue doing today. We continue to mask in all clinical areas and public areas. Our waiting rooms continue to be set up for social distancing. Infection control has been and will be at the forefront for clinical and non-clinical employees. We have seen very little flu and other respiratory and gastrointestinal sickness over the fall and winter.

III. One of the major lessons learned from COVID-19 was our ability to react and be flexible on a large scale when necessary, during a short time frame. We learned what we could achieve as a hospital community when all our energy and focus was on one main purpose. We adapted to changes in guidance hourly, major volume fluctuations, staffing furloughs, fear and anxiety from our patients and employees, and many other situations.

D. VALUE-BASED CARE PARTICIPATION

I. The hospital plans on participating in the same programs as last year which include Medicaid, BCBSVT/QHP, BC/BC Primary, and MVP QHP.
II. The ACO dues for FY 21= $542,295 and for FY 22 budget = $535,430.
III. We have utilized the Patient Centered Medical Home Model focusing on keeping our patients mentally and physically healthy. This allows us to wrap services around our patient population to help with social determinates of health as well as their physical medical conditions. This allows for comprehensive "full body care" with the goal of making our patients healthier, more compliant, and better supported on their health journey. Which value based funding sources are most valuable in driving this change? Our ACO CHT funds and our Blueprint Grant have been instrumental in making their services possible for our facility to provide these resources to our patients.
IV. One of our biggest opportunities and barriers is community partner involvement. We are curtly working on getting a Community Collaborative up in running for Orleans/ Northern Essex to allow for better collaboration and partnership with our community partners. This will allow for more comprehensive care for patients in our communities.
V.
    a. 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 a not a large margin that allows the hospital to take on more risk without jeopardizing the institutions financial stability.
    b. Because of the complexity of this question, we would need to hire outside council to be able to best understand what a reasonable time frame could be for us to reach the local tipping point and to move to a mostly fixed budget.
VI. We do not have the maximum risk liability available by payer for budget 2022.

E. CAPITAL INVESTMENT CYCLE

I. The capital budget for FY 2021 was $3,600,000. The capital budget for FY 2022 is $4,200,000. The increase in the capital budget from last year is mainly due to purchasing a redundant chiller for the plant and other dollars allocated to the maintenance of the hospital infrastructure. We have been able to purchase capital needs that was delayed due to COVID-19 last fiscal year and have not delayed any necessary purchases this year.
II. Yes, the redundant chiller is a requirement and the infrastructure replacement/improvements in plumbing and electrical will allow the hospital to continue to meet necessary requirements.