



Choosing Health

NORTHEASTERN VERMONT REGIONAL HOSPITAL



FY 2020 Budget Presentation to Green Mountain Care Board

August 23, 2019

1. Introduction/Overview (not to exceed 5 minutes)

- Michael Costa, JD, MHCDS, BA Michael has been CEO at Northern Counties Healthcare since March 2019
- Bob Hersey, MBA, FHFMA Bob has been CFO since September 1999
- Laura Newell, MSHCA – Laura has been VP of Physician Practices since January, 2018
- Michael Rouse, MD, MPH – Dr. Rouse was VP Medical Affairs for several years and since February 2019 has been Chief Medical Officer
- Laural Ruggles, MPH, MBA – Laural has been VP of Community Health Improvement and Marketing since 2002. Laural has held several leadership positions since 1995
- Julie Schneckenburger, MS, RN,CNOR- Julie has been CNO since July 2019
- Shawn Tester, MSOL Shawn has been CEO since November 2018

2. Summary of requests related to Net Patient Revenue/Fixed Prospective Payments (total dollars and growth rate) and Charges (growth rate; including for Commercial Charges)

NPR	Total	% over/under	Medicare	Medicaid-VT	Medicaid-OOS	Commercial-Maj	Comm - Self/Sml	Workers Comp	DSH
FY 19 Approved Budget	\$ 81,568,705		\$ 31,756,252	\$ 11,914,092	\$ 74,300	\$ 33,266,468	\$ 2,153,067	\$ 1,451,526	\$ 953,000
Commercial Rate	1,317,200	1.6%				1,238,200	79,000		
Rate - Non Commercial	-	0.0%							
Utilization	3,053,800	3.7%	1,429,000	530,300	2,600	998,000	43,100	50,800	
Reimbursement/Payer Mix	2,408,500	3.0%	2,350,700	59,600	11,000	264,200		(277,000)	
Bad Debt/Free Care	(571,300)	-0.7%				(679,200)	107,900		
Physician Acq/Trans	208,300	0.3%	80,000	42,000		56,300	10,000	20,000	
Changes in Accounting	-	0.0%							
Changes in DSH	34,700	0.0%							34,700
OCV Medicaid Risk	(579,000)	-0.7%		(579,000)					
Other (please label)									
TOTAL CHANGE FY19 TO FY20	5,872,200	7.2%	3,859,700	52,900	13,600	1,877,500	240,000	(206,200)	34,700
FY 20 Budget	\$ 87,440,905		\$ 35,615,952	\$ 11,966,992	\$ 87,900	\$ 35,143,968	\$ 2,393,067	\$ 1,245,326	\$ 987,700

- NPR FY 19 Budget to FY 20 Budget Growth Rate of \$5,872,000 or 7.2%
 - NPR FY19 Projected to FY20 Budget Growth Rate of \$2,962,300 or 3.5%
- Charge/Rate Increase Requested is 3.5%
 - 3.8% hospital services
 - 0% physician practices
- Charge/Rate Increase Approved for FY19 was 3%

3. & 4. Hospital issues and areas of risk/opportunities;-

- **Opportunities:**
 - To Reduce Cost of Care
 - Access to Care
 - Wait Times Improving
 - Primary Care Access/Convenient Care Program
 - All Payer Model Quality Measures
 - Care Coordination
 - Collective Impact and Community Partners
 - Integrated Care Team and Team-based Care
 - Improved ACO and Internal Analytics
 - Upstream Prevention: NEK Prosper – Caledonia and So. Essex Accountable Health Community
 - Better Address Needs of Mentally Ill and Substance Abuse Disorder Patients

- **Risks:**
 - Areas SNF Sustainability
 - Tertiary Bed Availability
 - Demographic Realities for Patients and Staff
 - Workforce
 - High Cost of Agency and Locum Tenens
 - Recruitment and Retention Issues
 - Ophthalmology
 - FTE Increase
 - Provider and Staff Burnout
 - 340B Program Vulnerability
 - ACO Risk Contract
 - Medicaid Next Gen is Risk/Opportunity
 - Failure to Better Meet Needs of Mentally Ill and Substance Abuse Disorder Patients

5. Financial health of the hospital using key metrics (see Appendix IV for list of Financial Health Indicators)

METRIC	FY 17 A	FY 18 A	FY 19 B	FY 19 P	FY 20 B
Profitability					
Total Margin %	0.6%	2.3%	1.8%	1.8%	2.0%
Operating Margin (\$)	\$ 1,477,400	\$ 1,430,300	\$ 1,558,900	\$ 1,600,000	\$ 1,800,000
EBIDA Margin %	6.0%	5.8%	6.3%	6.0%	6.5%
Operating Margin %	1.9%	1.7%	1.8%	1.8%	2.0%
Return on Assets %	2.3%	2.2%	2.3%	2.4%	2.6%
Liquidity					
Cash/Investments (\$)	\$ 25,293,600	\$ 25,727,200	\$ 26,717,300	\$ 26,403,200	\$ 26,715,300
Days Cash on Hand	124	120	121	108	114
Expenses Per Day (\$)	\$ 204,000	\$ 214,500	\$ 219,900	\$ 229,700	\$ 236,600
Net Days in A/R	38	38	42	40	38
Net Days in A/P	65	65	56	56	58
Capital Structure					
Debt Service Coverage Ratio	4.6	4.8	2.2	5.3	6.2
Long Term Debt/Capitalization %	21%	20%	18%	17%	16%
Cash to Long Term Debt %	240%	260%	290%	290%	310%
Average Age of Plant (Yrs)	13	13	13	13	12
Capital Spending % of NPR	4.5%	6.6%	4.6%	4.7%	6.0%
Equity Financing (LTD to Assets)	16.7%	15.1%	13.0%	12.7%	11.9%
Cost					
Salaries to NPR %	45.5	47.5	49.1	46.6	48.4
FTE per Adjusted Occupied Bed	7.5	7.4	7.7	7.1	8.4
Compensation Ratio	58.9%	59.0%	60.4%	60.1%	61.5%

- Operating margin consistency over four year period
- Days cash on hand lower than peer group but trending upward
- Capital structure solid and improving. NVRH has capacity to issue new debt
- Cost metrics declining slightly

6. Financials:

a. Profit and Loss and Balance Sheet

NORTHEASTERN VT REGIONAL HOSPITAL				2020 Budget	19 B to 20B	19B to 20B
Profit and Loss Statement	2018 Actual	2019 Budget	2019 Projection	Submitted	\$Change	%Change
Gross Patient Care Revenue	\$161,098,014	\$170,991,978	\$174,898,238	\$183,229,400	\$12,237,422	7.2%
Net Revenue Deductions	-\$82,652,942	-\$89,423,273	-\$93,695,326	-\$100,349,006	-\$10,925,733	-12.2%
Net Patient Care Revenue	\$78,445,072	\$81,568,705	\$81,202,912	\$82,880,394	\$1,311,689	1.6%
Fixed Prospective Payments (incl Reserves & Other)	\$0	\$0	\$3,275,330	\$4,560,100	\$4,560,100	100.0%
Total NPR & FPP (incl Reserves)	\$78,445,072	\$81,568,705	\$84,478,242	\$87,440,494	\$5,871,789	7.2%
Other Operating Revenue	\$4,409,530	\$3,692,700	\$4,475,800	\$4,668,400	\$975,700	26.4%
Total Operating Revenue	\$82,854,602	\$85,261,405	\$88,954,042	\$92,108,894	\$6,847,489	8.0%
Total Operating Expense	\$81,424,338	\$83,702,505	\$87,354,042	\$90,308,894	\$6,606,389	7.9%
Net Operating Income (Loss)	\$1,430,264	\$1,558,900	\$1,600,000	\$1,800,000	\$241,100	15.5%
Non-Operating Revenue	\$455,300	\$0	\$0	\$0	\$0	0.0%
Excess (Deficit) Of Revenue Over Expense	\$1,885,564	\$1,558,900	\$1,600,000	\$1,800,000	\$241,100	15.5%
Operating Margin %	1.7%	1.8%	1.8%	2.0%		
Total Margin %	2.3%	1.8%	1.8%	2.0%		

NVRH
BALANCE SHEET
FYE September 30, 2019 and 2020

ASSETS

CURRENT ASSETS	2019 B	2019 P	2020 B
CASH & INVESTMENTS	\$8,767,256	\$6,400,000	\$8,607,300
PATIENT ACCOUNTS RECEIVABLE, GROSS	\$18,682,162	\$24,900,000	\$25,357,500
LESS: ALLOWANCE FOR UNCOLLECTIBLE ACCTS	-\$9,341,081	-\$15,642,100	-\$16,307,500
DUE FROM THIRD PARTIES	\$0	\$0	\$0
RISK RESERVE FOR FIXED REFORM PAYMENTS	\$0	\$0	\$0
OTHER CURRENT ASSETS	\$3,469,893	\$3,290,700	\$1,500,000
TOTAL CURRENT ASSETS	\$21,578,230	\$18,948,600	\$19,157,300
BOARD DESIGNATED ASSETS			
FUNDED DEPRECIATION	\$17,950,000	\$18,424,000	\$18,424,000
ESCROWED BOND FUNDS	\$0	\$0	\$0
OTHER	\$0	\$0	\$0
TOTAL BOARD DESIGNATED ASSETS	\$17,950,000	\$18,424,000	\$18,424,000
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET	\$26,300,000	\$24,252,600	\$26,252,600
OTHER LONG-TERM ASSETS	\$5,424,425	\$7,326,600	\$7,426,600
TOTAL ASSETS	\$71,252,655	\$68,951,800	\$71,260,500

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES	2019 B	2019 P	2020 B
ACCOUNTS PAYABLE	\$4,000,000	\$3,900,000	\$4,200,000
SALARIES, WAGES AND PAYROLL TAXES PAYABLE	\$5,000,000	\$5,000,000	\$5,500,000
ESTIMATED THIRD-PARTY SETTLEMENTS	\$500,000	\$2,200,000	\$2,500,000
OTHER CURRENT LIABILITIES	\$750,000	\$1,004,700	\$1,589,300
CURRENT PORTION OF LONG-TERM DEBT	\$2,040,000	\$755,400	\$755,400
TOTAL CURRENT LIABILITIES	\$12,290,000	\$12,860,100	\$14,544,700
LONG-TERM DEBT			
BONDS & MORTGAGES PAYABLE	\$9,260,000	\$9,000,000	\$8,732,000
CAPITAL LEASE OBLIGATIONS	\$0	\$0	\$0
OTHER LONG-TERM DEBT	\$0	\$0	\$0
TOTAL LONG-TERM DEBT	\$9,260,000	\$9,000,000	\$8,732,000
OTHER NONCURRENT LIABILITIES	\$7,672,000	\$4,007,900	\$3,100,000
TOTAL LIABILITIES	\$29,222,000	\$25,868,000	\$26,376,700
FUND BALANCE	\$42,030,655	\$43,083,800	\$44,883,800
TOTAL LIABILITIES AND FUND BALANCE	\$71,252,655	\$68,951,800	\$71,260,500

b. Expense drivers and cost containment efforts (three to four specific high-level categories)

FY 2019 Approved Expenses to Budget FY 2020

Expenses	Amount	% over/under
FY 19 Approved Budget	\$ 83,702,505	
New Positions (See table below)	875,000	1.0%
Inflation Increases	754,600	0.9%
Salaries (Wage Increases)	1,351,000	1.6%
Fringe	975,000	1.2%
Physician Contracts	0	0.0%
Contract Staffing	975,000	1.2%
Supplies	265,000	0.3%
Drugs	312,000	0.4%
Facilities		0.0%
IT Related	236,800	0.3%
Health Reform Programs		0.0%
Depreciation	515,000	0.6%
Interest	(138,000)	-0.2%
Health Care Provider Tax	465,000	0.6%
NPT Transfer	185,000	0.2%
ACO Infrastructure Fees	125,000	0.1%
Cost Savings	(290,000)	-0.3%
FY20 Budget	\$ 90,308,905	

Expense Drivers

- Temporary staffing and locum tenens expenses
- Healthcare related cost increases higher than general inflation (e.g. staff, drugs, supplies. Drug increases partially offset by 340B savings)
- Fringe benefits (health services, drugs, new benefit)
- Volume Increases (increased FTEs and non-salary cost increases, provider tax)

Cost Containment Efforts

- Maximize 340B savings (now at \$1 million annual savings)
- Maximize supply chain savings – (medical supply GPO; product standardization)
- Leadership requires justification for all new and replacement positions
- ECRI service used to verify NVRH receives best pricing on all medical equipment purchases

NVRH
 Summary of FTE Increases
 FY 19 Budget to FY 20 Budget

Description	FTE Increase
Physician Providers, Care Coordination, Behavior Health & Support	6.80
Expand Service Coverage 24/7 Respiratory Care	1.00
ED Volume and Acuity / Convenient / Urgent Care Program	5.90
Environmental Services	1.50
Resources to Support E HR efficiency	2.00
Chief Medical Officer	0.50
Increase Behavioral Health Specialist/Clinical Care in Practices	1.10
Increase Hospitalist Service	0.50
Other Volume and Acuity Related	1.00
Eliminations (Partial)	(3.30)
Total Increase	17.00

c. An updated reconciliation between FY 2019 approved budget and FY 2019 full- year projection

NVRH

Budget 2020 Submission
 Reconciliation

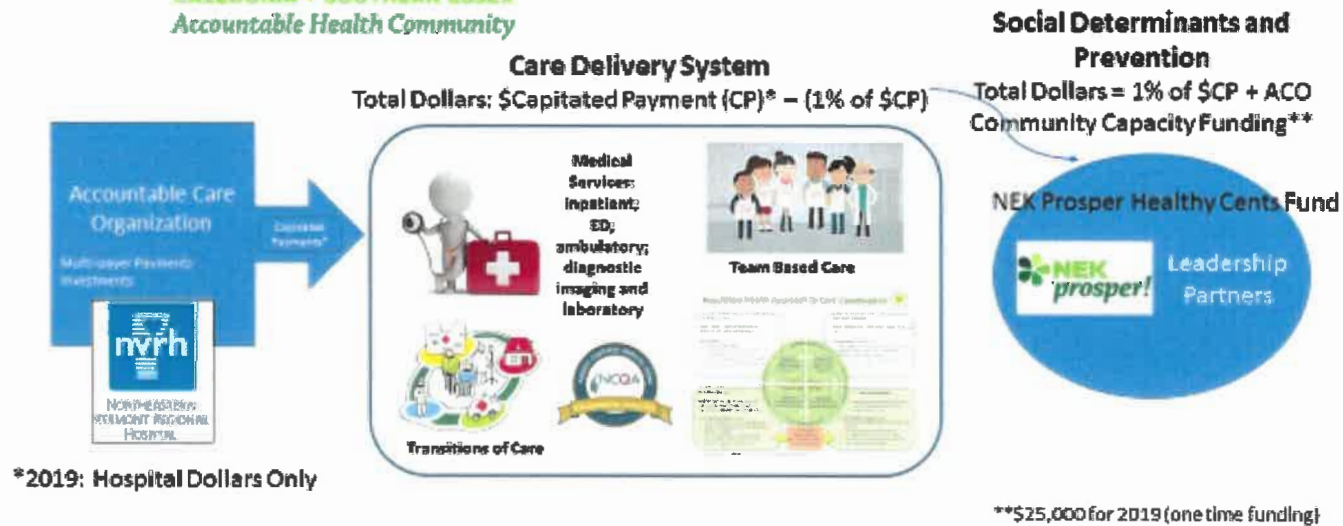
	FY 2019 Budget	FY 2019 Projected	NOTES
NET PATIENT CARE REVENUE	\$81,568,705	\$81,058,242	
FIXED PROSPECTIVE PAYMENTS	\$0	\$3,854,300	Not isolated in original budget
OTHER REFORM PAYMENTS	\$0	\$0	
RESERVES (for at-risk portion of FPP)	\$0	-\$434,300	
TOTAL NPR & FPP & RESERVES & OTHER	\$81,568,705	\$84,478,242	Volume, higher acuity of patients, unable to transfer patients to other facilities in timely manner
EMPLOYEE SALES PHARMACY	\$53,300	\$53,200	
PHYSICIAN OFFICE AND OTHER RENTALS	\$0	\$121,100	
340B RETAIL PHARMACY PROGRAMS	\$2,450,000	\$2,000,000	Delay in capturing some 340B revenue.
OTHER	\$0	\$144,100	
REFERENCE LAB REVENUE	\$1,049,400	\$2,157,400	Reference lab work understated in original estimate. Certain lab modalities were excluded
OTHER OPERATING REVENUE	\$3,692,700	\$4,475,800	
TOTAL OPERATING REVENUE	\$85,261,405	\$88,954,042	
OPERATING EXPENSE			
SALARIES NON MD	\$29,645,050	\$29,532,921	Vacant positions filled by temporary agency staff
FRINGE BENEFITS NON MD	\$8,881,546	\$10,898,454	Health insurance increases, pharmacy benefit cost increase, fiscal 2019 reporting error
FRINGE BENEFITS MD	\$2,561,347	\$3,143,938	Health insurance increases, pharmacy benefit cost increase, fiscal 2019 reporting error
PHYSICIAN FEES SALARIES CONTRACTS & FRINGE	\$10,371,950	\$9,875,313	Vacant positions
HEALTH CARE PROVIDER TAX	\$4,600,000	\$4,703,185	Higher NPR
DEPRECIATION AMORTIZATION	\$3,450,000	\$3,514,440	Additional equipment purchases
INTEREST - LONG TERM	\$350,000	\$249,350	Anticipated new bond issue not completed
OTHER OPERATING EXPENSE	\$23,842,612	\$25,436,441	Temporary agency and locum expense \$2.9 million higher than budget
TOTAL OPERATING EXPENSE	\$83,702,505	\$87,354,042	
NET OPERATING INCOME (LOSS)	\$1,558,900	\$1,600,000	
NON-OPERATING REVENUE	\$0	\$0	
EXCESS (DEFICIT) OF REVENUE OVER EXPENSE	\$1,558,900	\$1,600,000	

7. Other clarifying information to tell the hospital's financial story

- Meeting Community Needs through collaboration, innovation, and upstream prevention.
 - NEK Prosper! Caledonia and Southern Essex Accountable Health Community
 - ACO Pilot with OneCare VT and Department of Vermont Health Access
 - Geographic Attribution
 - NEK Prosper Healthy Cents Fund
- Funding for community health initiatives
- Community Health Needs Assessment and Community Benefits
 - FY 18 Community Benefits \$\$ and %%
 - Economic Engine for local economy
- Rides to Work update



Using the Accountable Health Community Framework to Move Hospital \$ to Social Determinants of Health and Prevention





Hospital Funds for Community Health Improvement

Name of Funding	\$ Source
Community Benefits	Hospital Operating Budget; healthy bottom line
Community Health Fund	Community Donations
NEK Prosper Healthy Cents Fund	Hospital Operating Budget; ACO capitated payments

8. Capital budget plans – include both non-CON and CON capital plans (include routine replacement of nonmedical equipment and fixtures and information on performance of approved CONs, including capital budget performance)

- \$3.1 million MRI CON project will be completed in December, 2019. On budget and on time
- \$.3 million included in budget for routine building infrastructure replacement/upgrade
- \$1.2 million to replacing one diagnostic imaging room and PACS system
- \$.9 million to replace operating room endoscopy scopes and video equipment
- Capital Budget Committee meets monthly to review and prioritize needs
- ED/West Wing construction/renovation project and timing (Ryan attend to present?)
 - Existing ED undersized by current standards
 - Expand from 9 to 14 exam rooms
 - Add 4 rooms for mental/behavioral health patients
 - Renovate current ED space for other ancillary services
 - Funding sources
 - Operating margin accumulation
 - Issuance of new long term debt
 - Philanthropy
 - New Market Tax Credits

9. Long range financial outlook (four to five years), including indication of how financial goals align with APM targets

- Participate in all OneCare Vermont Next Generation Risk Programs
 - Risk thresholds must be appropriate for Critical Access Hospital
 - Geographic attribution preferred for all programs
- Expand knowledge of TCOC drivers and modify care management strategies as needed
- Strengthen balance sheet and measures of financial health in preparation for issuance of new debt
- Expand collaborative relationships to meet community needs while controlling TCOC growth
 - Current successful collaborations include:
 - Sleep Medicine Program/Pulmonary Clinic with North Country Hospital
 - Recovery coaches in ED with NEKHS

10. Review of historical compliance with budget orders

Fiscal Year	Approved NPR	Actual NPR	\$ Over/(Under)	% Over/(Under)
2014 A	\$ 64,687,200	\$ 61,868,800	(\$ 2,818,400)	(4.4 %)
2015 A	\$ 65,324,100	\$ 65,548,600	\$ 224,500	.3%
2016 A	\$ 68,095,300	\$ 71,586,600	\$ 3,419,300	5.1%
2017 A	\$ 77,069,500	\$ 76,794,700	\$ (274,800)	(.4%)
2018 A	\$ 77,077,400	\$ 78,445,100	\$ 1,367,700	1.8%
2019 P	\$ 81,568,700	\$ 84,478,200	\$ 2,909,500	3.6%

- Compliance with financial targets mixed
- Compounded NPR growth rate for is 6.4%
- NVRH is a much different hospital in 2020 than in 2014
 - Improved access to essential services
 - Reduced leakage to out-of-state hospitals
 - Provider succession planning has positioned NVRH well for future
- For each of the above fiscal years NVRH complied with all reporting and other non-financial budget order requirements.