

# **Rutland Regional Medical Center: Budget Modification Request**

March 17, 2022

GMCB Health System Finance Team

DRAFT



# Legal – GMCB Rule 3.000

## 3.401 Budget Performance Review and Adjustment

(a) The Board may conduct an independent review of a hospital's performance under the budget established for it by the Board at any time, including in response to an application for an adjustment made by a hospital pursuant to 18 V.S.A. § 9456(f). This review shall take into consideration the following factors:

- (1) the variability of a hospital's actual revenues, taking into account the resources of payers and the methods of payment used by the payers;
- (2) the hospital's ability to limit services to meet its budget, consistent with its obligations to provide appropriate care for all patients;
- (3) the financial position of the hospital in relation to other hospitals and to the health care system as a whole, using the statistics developed from information submitted in compliance with the uniform reporting manual;
- (4) the hospital's performance under budgets identified or established under subchapter 7 of Chapter 221 of Title 18 of Vermont Statutes Annotated for the previous three years and its budget projections for the next three years; and
- (5) any other considerations deemed appropriate by the Board, including but not limited to other instances in which a hospital has less than full control over the expenditures limited by the budget.

# Rutland Regional Medical Center: Request for Budget Modification



- RRMC's Executive Finance Committee approved request on February 15, 2022
- RRMC submitted request on February 25, 2022
- **Reason for Request**
  - Unanticipated demand for services and workforce challenges in recruiting and maintaining staff.
  - These unanticipated challenges are having an adverse effect on operating expenses that are projecting to exceed approved FY22 budget by nearly \$45 million.
  - Margin erosion due to factors cited above.
- **Financial Update**
  - Increased demand has generated projected gross and net patient/fixed perspective payment revenues to exceed approved budget by 9% and 10.8%, respectively.
  - Other Operating Revenues are 37% over budget due to unbudgeted federal relief (\$7.4 million) which is aiding in offsetting a portion of the rising cost and constraining further margin erosion.
  - Operating Expenses driven by increased demand, workforce pressures and rising costs are projected at 15.3% over approved budget.
  - Result: Operating margin is currently projected to be -\$7.55 million, a 2.3% loss on margin, and a \$7.67 million variance from budget.

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- Request:

- Requesting a 9.0% change in charge (rate) to Gross Charges for specific services from 3.64% approved in September 2021.
- New rate to be effective April 1<sup>st</sup>

Net Patient Revenue/Fixed Prospective Payment		
FY2022 Approved	FY2022 Projection without Amendment	FY2022 Projection with Amendment
\$270.4 million	\$299.6 million	\$307.0 million

- Financial Impact

- If approved, Total Gross Revenue impact due to rate ONLY is an increase of \$31.8 million – mostly outpatient services and NPR/FPP impact over current projection is an increase of \$7.4 million. NPR value of 1% of request is roughly equal to \$822,222.
- If approved, gross and net patient/fixed perspective payment revenues would be projected to exceed budget by 14% and 13.5%, respectively.
- If approved, no change in projected overage of operating expenses to budget.
- If approved, projected operating margin improvement to -\$187 thousand, a -.01% loss on margin and -\$308.7 thousand variance from approved budget.

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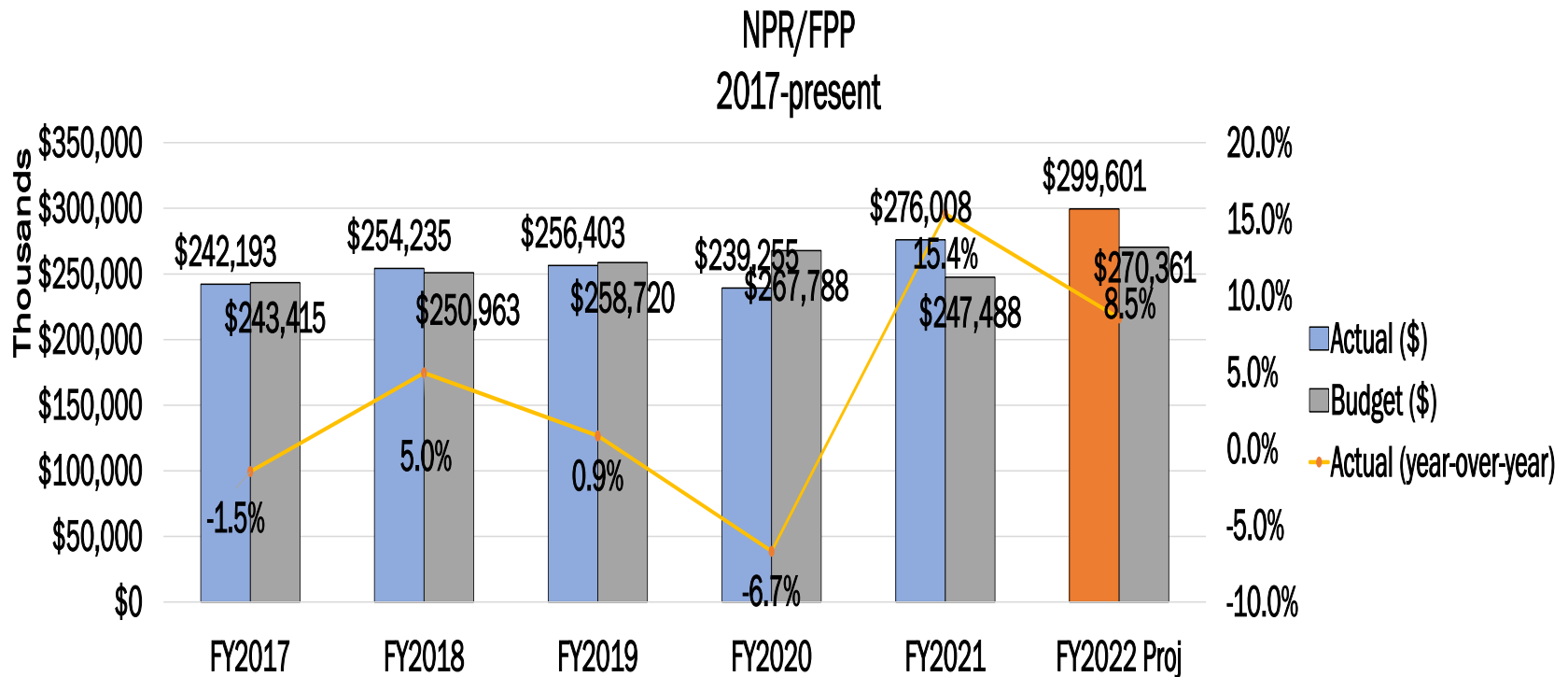
Rutland Regional Medical Center						
Claudio Fort			Judi Fox			
Fiscal Year 2022 YTD Summary						
1st Qtr. Through Dec.						
INCOME STATEMENT	2021 A	2022 B	2022 B YTD	2022 YTD	2022 PROJ	2022 PROJ w/ rate increase
<b>Revenues</b>						
Gross Patient Care Revenue	\$637,836,276	\$639,838,632	\$159,959,658	\$176,939,038	\$697,541,994	\$729,301,900
Net Patient Care Revenue	\$275,551,848	\$271,575,178	\$67,893,795	\$77,042,088	\$300,336,994	\$307,703,770
Fixed Prospective Payments and Reserves	\$456,370	-\$1,213,808	-\$303,452	-\$37,720	-\$736,057	-\$736,057
Net Patient Care Rev & Fixed Payments & Reserves	\$276,008,218	\$270,361,370	\$67,590,343	\$77,004,368	\$299,600,937	\$306,967,713
Other Operating Revenue	\$35,347,680	\$20,745,734	\$5,186,434	\$9,784,405	\$28,470,047	\$28,470,047
<b>Total Operating Revenue</b>	<b>\$311,355,898</b>	<b>\$291,107,104</b>	<b>\$72,776,776</b>	<b>\$86,788,773</b>	<b>\$328,070,984</b>	<b>\$335,437,760</b>
<b>Total Operating Expenses</b>	<b>\$304,385,835</b>	<b>\$290,985,741</b>	<b>\$72,746,435</b>	<b>\$87,852,522</b>	<b>\$335,625,075</b>	<b>\$335,625,075</b>
<b>Net Operating Income</b>	<b>\$6,970,064</b>	<b>\$121,363</b>	<b>\$30,341</b>	<b>-\$1,063,749</b>	<b>-\$7,554,091</b>	<b>-\$187,315</b>
<b>Income Statement Metrics</b>						
Operating Margin %	2.2%	0.0%	0.0%	-1.2%	-2.3%	-0.1%
Total Margin %	10.5%	2.2%	2.2%	2.1%	-2.3%	-0.1%

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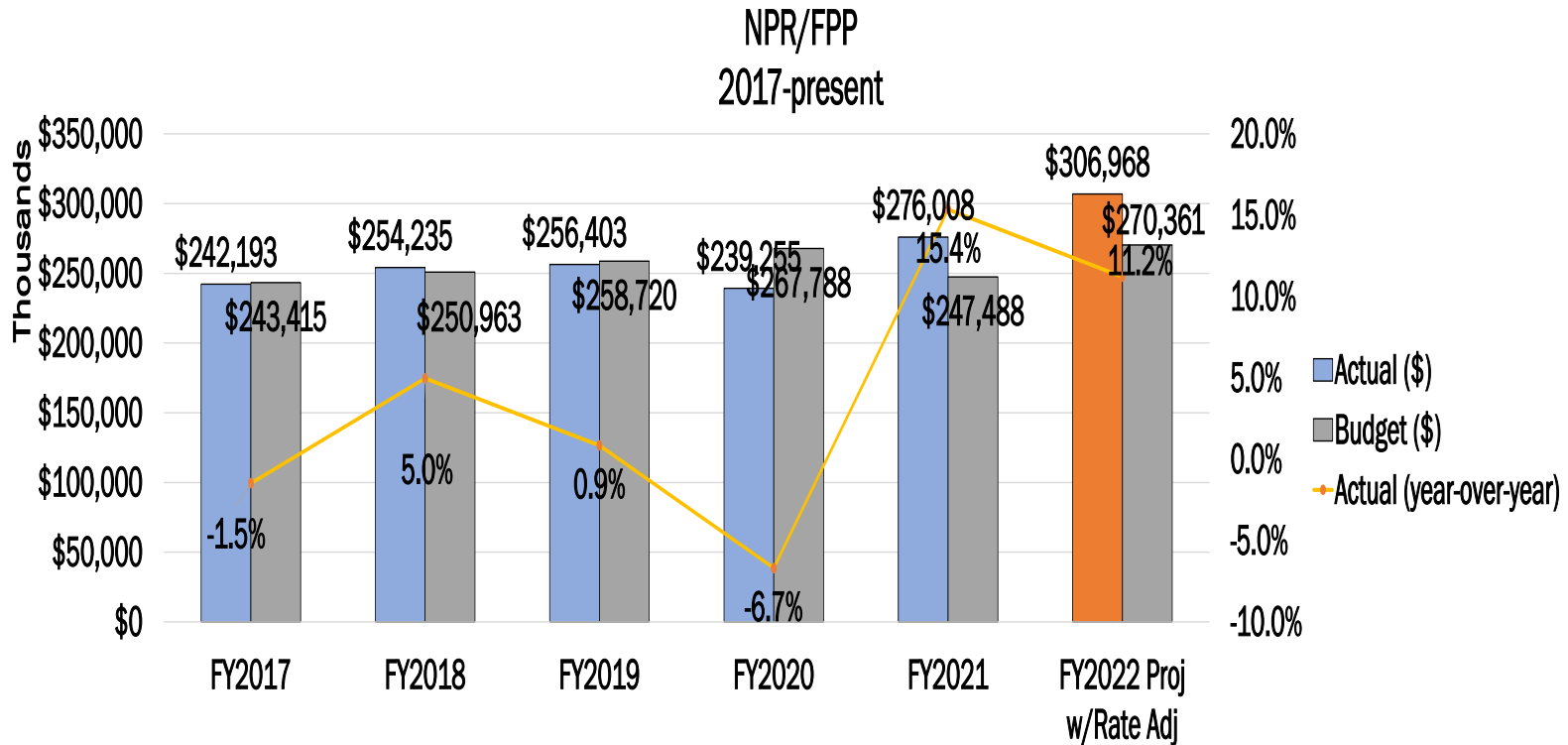


Rutland Regional Medical Center								
Claudio Fort			Judi Fox					
Fiscal Year 2022 YTD Summary								
INCOME STATEMENT	2021 A	2022 B	2022 PROJ	2022 PROJ w/ rate increase	2022 B- 2022 Proj	2022 B- 2022 Proj w/rate	2022 B- 2022 Proj	2022 B- 2022 Proj w/rate
Revenues								
Gross Patient Care Revenue	\$637,836,276	\$639,838,632	\$697,541,994	\$729,301,900	\$57,703,362	\$89,463,268	9.0%	14.0%
Net Patient Care Revenue	\$275,551,848	\$271,575,178	\$300,336,994	\$307,703,770	\$28,761,816	\$36,128,592	10.6%	13.3%
Fixed Prospective Payments and Reserves	\$456,370	-\$1,213,808	-\$736,057	-\$736,057	\$477,751	\$477,751	-39.4%	-39.4%
Net Patient Care Rev & Fixed Payments & Reserves	\$276,008,218	\$270,361,370	\$299,600,937	\$306,967,713	\$29,239,567	\$36,606,343	10.8%	13.5%
Other Operating Revenue	\$35,347,680	\$20,745,734	\$28,470,047	\$28,470,047	\$7,724,313	\$7,724,313	37.2%	37.2%
Total Operating Revenue	\$311,355,898	\$291,107,104	\$328,070,984	\$335,437,760	\$36,963,880	\$44,330,656	12.7%	15.2%
Total Operating Expenses	\$304,385,835	\$290,985,741	\$335,625,075	\$335,625,075	\$44,639,334	\$44,639,334	15.3%	15.3%
Net Operating Income	\$6,970,064	\$121,363	-\$7,554,091	-\$187,315	-\$7,675,454	-\$308,678	-6324%	-254.3%
Income Statement Metrics								
Operating Margin %	2.2%	0.0%	-2.3%	-0.1%	-20.8%	-0.7%		
Total Margin %	10.5%	2.2%	-2.3%	-0.1%	-45.9%	-17.6%		

# Rutland Regional Medical Center: Request for Budget Modification- Projection without rate increase



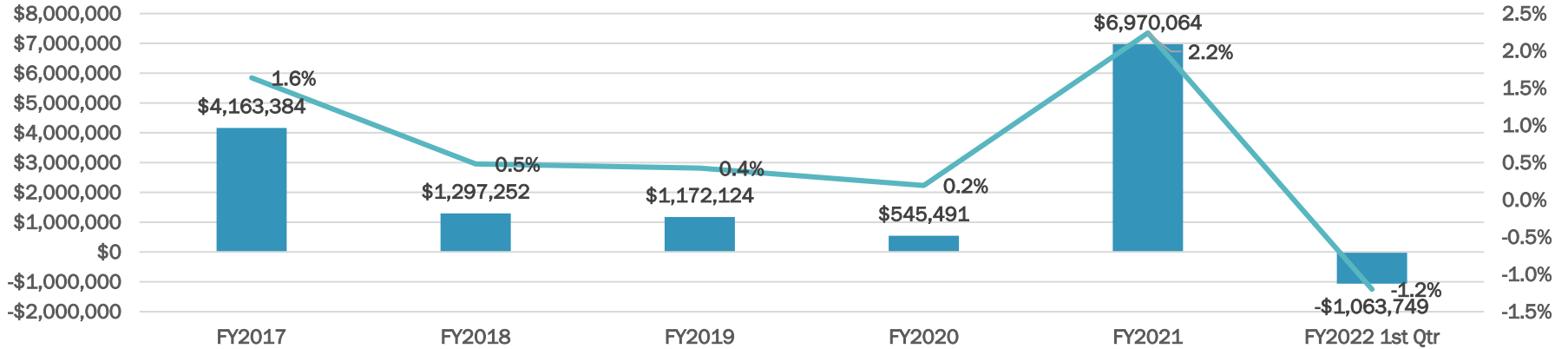
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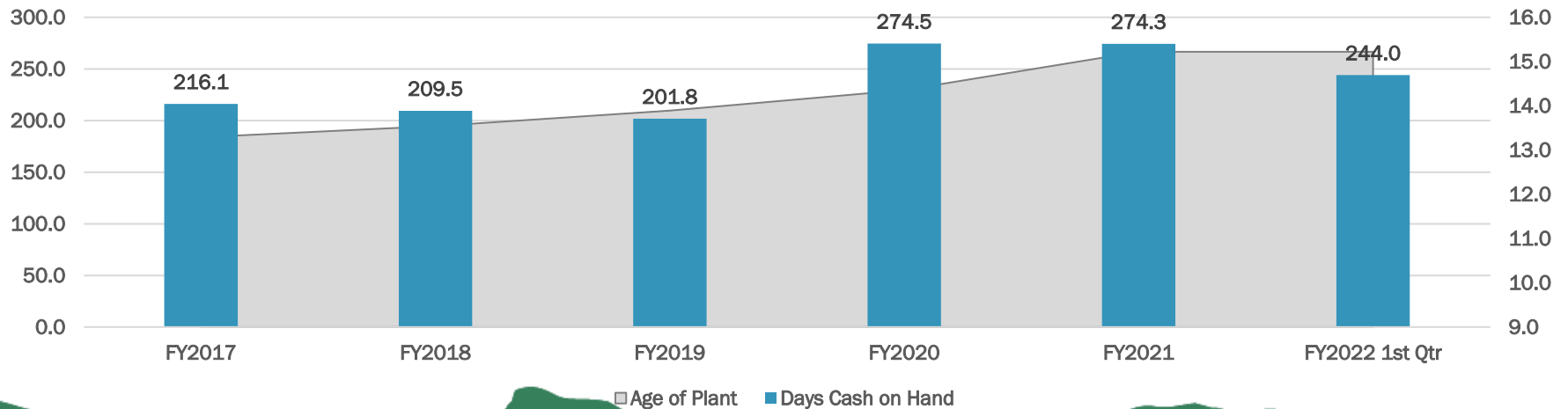


# Rutland Regional Medical Center:

### Operating Margin



### Cash on Hand and Age of Plant



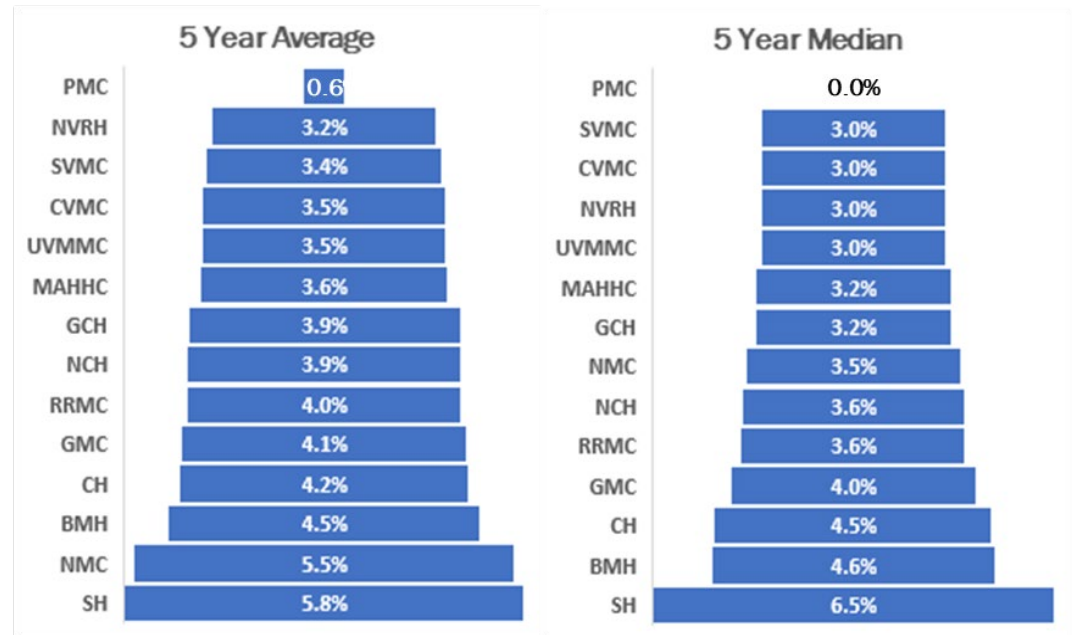
# Change in Charge: 5-year Average 2018- 2022

- As of approved FY22 budgets, RRMC 5-year avg. and 5-year med. position improved as the FY2017 -5.1% rate reduction fell off and the FY22 3.64% approved rate increase came on.

Original 5-Year History	FY2018	FY2019	FY2020	FY2021	FY2022	5-Year Avg.	5-Year Med.
Approved	4.90%	2.60%	2.70%	6.00%	3.64%	3.97%	3.64%
5-Year w/Adjustment	FY2018	FY2019	FY2020	FY2021	FY2022*	5-Year Avg.	5-Year Med.
Approved	4.90%	2.60%	2.70%	6.00%	8.14%	4.87%	4.90%

\*Combined weighted rate increase over FY21 if approved at 9%

## Change in Charge



\*PMC has been zero since FY2017

# Rutland Regional Medical Center:



- Did RRMC Confirm that the request is able to be implemented under third party-payer contracts?
  - Not as of the formal request letter dated February 25, 2022
- What is RRMC's contingency if not approved?
  - What is RRMC's ability to limit services to meet its budget, consistent with its obligations to provide appropriate care for all patients?
    - RRMC does not have a contingency plan. The projected losses potentially challenge RRMC's capacity to meet financial debt covenants.
    - RRMC believes the services they offer are in alignment with the community's needs. Without the rate increase RRMC may have to limit certain services which could have further utilization and cost implications as many are tied to primary care.

## Rutland Regional Medical Center:



- Does RRMC's mid-year request have any impact on any wait times issues that RRMC might be experiencing? If so, please explain.
  - No, the request is entirely due to the need to respond to inflationary costs related to workforce.

## Staff Recommendation:

- Staff recommendation:
  - Approve 9% requested increase to mitigate projected margin erosion and provide hospital leadership financial flexibility to meet the unforeseen circumstances resulting from increased volumes, workforce and other cost pressures. The approval of 9% would create an overall rate change of 8.14% from FY21 for RRMC.
- Suggested motion language:
  - *Move to [approve] Rutland Regional Medical Center's request for a mid-year adjustment to its FY22 budget [as submitted], with a charge increase of [9%] from Rutland Regional's approved FY22 budget, to be effective April 1, 2022.*