

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

March 30, 2022

GMCB Health System Finance Team

# 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.

# Public Comment (as of 3/30/2022)



- 9 overall public comments related in total or in part to RRMC's request:
- 1 - Sarah Teachout – BCBS
- 1 – Jordan Estey – MVP
- 1 – Michael Fleischer – NFP
- 1 – Sharron Scott – Vermont State Colleges System
- 5 – Members of the public

# Changes from 3/23/2022



- Added analysis of inflation factors as identified by RRMC (Slides 17-19)
- Added financial comparison analysis of RRMC vs. state peer group and Fitch peer groups as of Q1 2022 (Slide 20).

# 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 prospective 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.

# Rutland Regional Medical Center: Request for Budget Modification



- 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 prospective 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.

# Rutland Regional Medical Center: Request for Budget Modification (revised)



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>Non Operating Revenue</b>	<b>\$28,607,927</b>	<b>\$6,373,864</b>	<b>\$1,593,466</b>	<b>\$2,924,575</b>	<b>-\$4,324,882</b>	<b>-\$4,324,882</b>
<b>Excess (Deficit) of Rev over Exp</b>	<b>\$35,577,990</b>	<b>\$6,495,227</b>	<b>\$1,623,807</b>	<b>\$1,860,826</b>	<b>-\$11,878,973</b>	<b>-\$4,512,197</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%	-3.7%	-1.4%

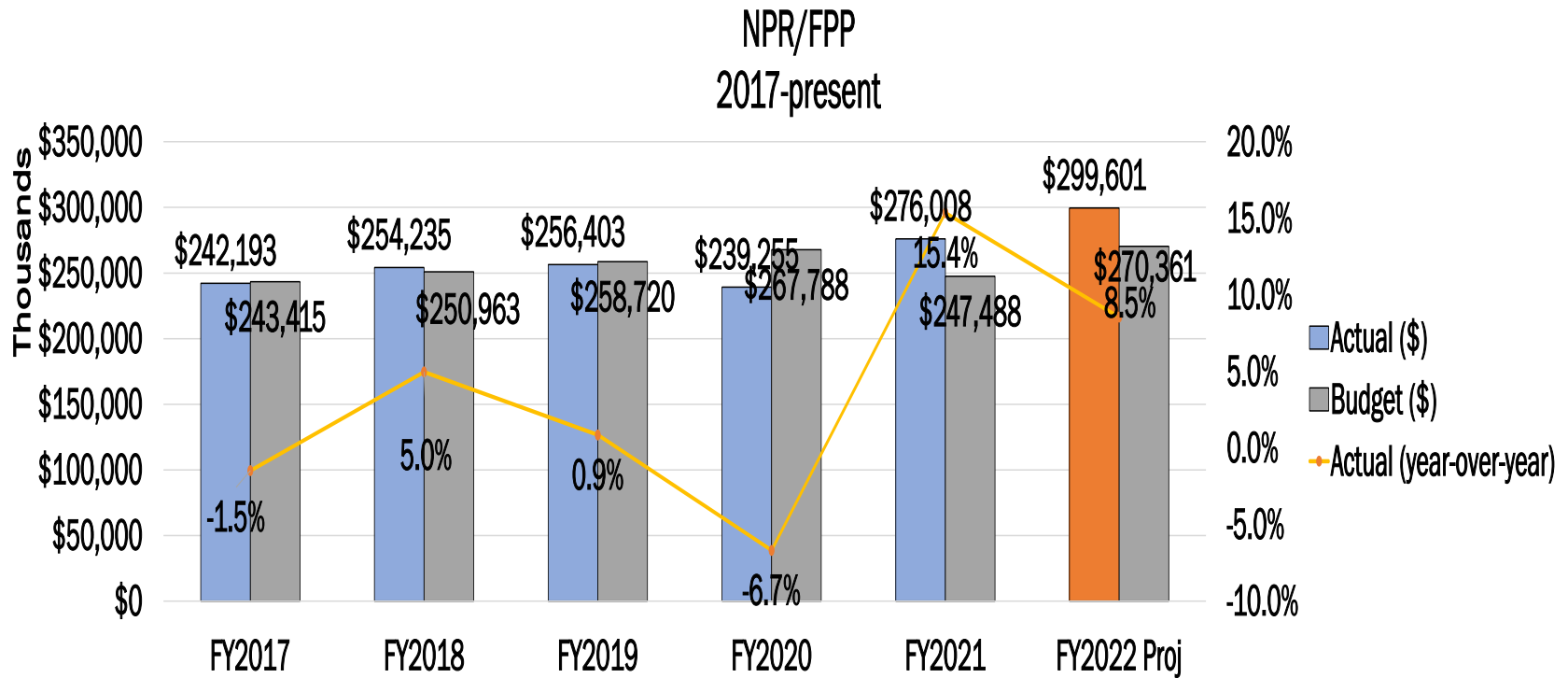
# Rutland Regional Medical Center: Request for Budget Modification (revised)



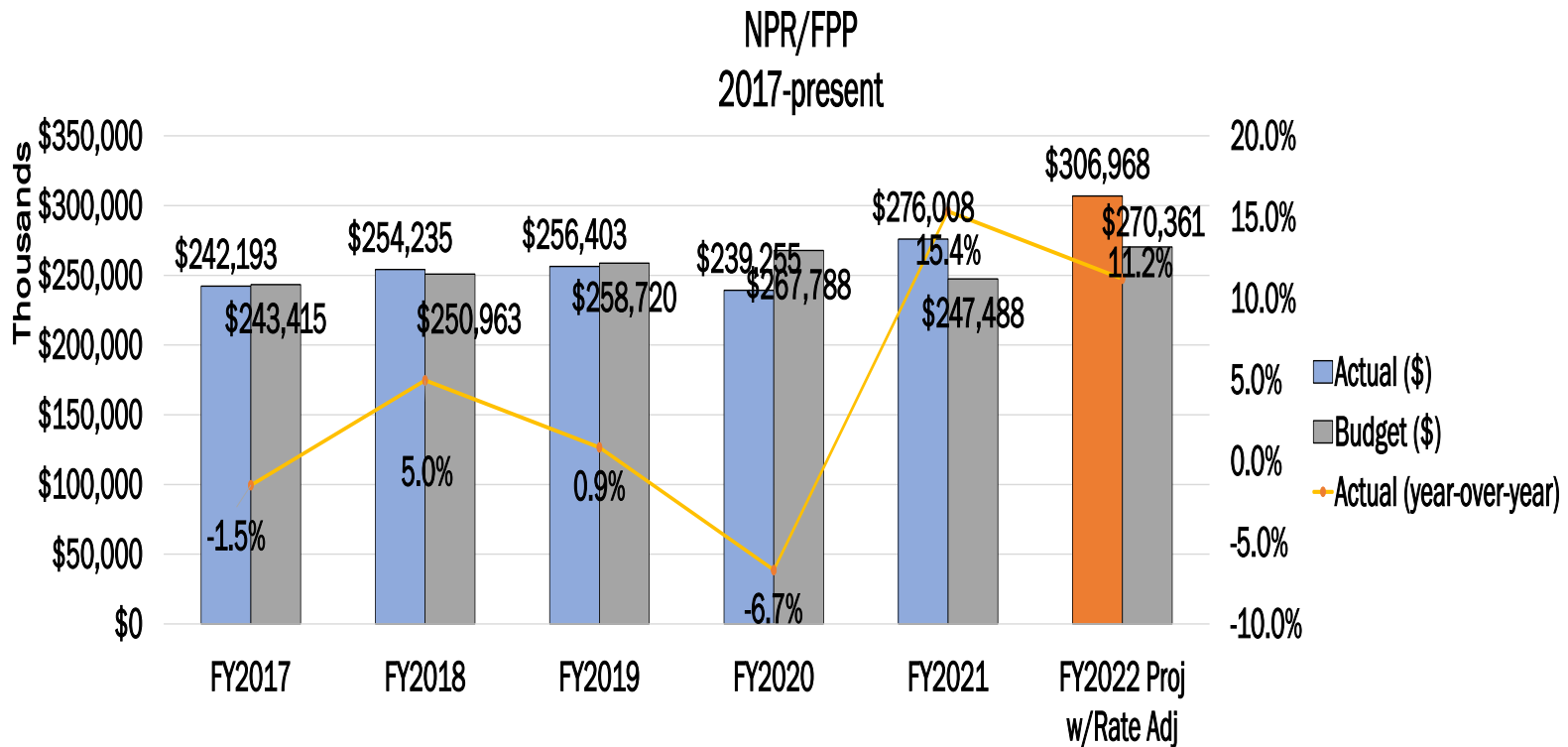
Rutland Regional Medical Center								
Claudio Fort			Judi Fox					
Fiscal Year 2022 YTD Summary								
INCOME STATEMENT	2021 A	2022 B	2022 PROJ	2022 PROJ w/ rate increase	2022 B- 2022 Proj	2022 B- 2022 Proj w/rate	2022 B- 2022 Proj	2022 B- 2022 Proj w/rate
<b>Revenues</b>								
Gross Patient Care 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%
<b>Total Operating Revenue</b>	<b>\$311,355,898</b>	<b>\$291,107,104</b>	<b>\$328,070,984</b>	<b>\$335,437,760</b>	<b>\$36,963,880</b>	<b>\$44,330,656</b>	<b>12.7%</b>	<b>15.2%</b>
<b>Total Operating Expenses</b>	<b>\$304,385,835</b>	<b>\$290,985,741</b>	<b>\$335,625,075</b>	<b>\$335,625,075</b>	<b>\$44,639,334</b>	<b>\$44,639,334</b>	<b>15.3%</b>	<b>15.3%</b>
<b>Net Operating Income</b>	<b>\$6,970,064</b>	<b>\$121,363</b>	<b>-\$7,554,091</b>	<b>-\$187,315</b>	<b>-\$7,675,454</b>	<b>-\$308,678</b>	<b>-6324%</b>	<b>-254.3%</b>
<b>Non Operating Revenue</b>	<b>\$28,607,927</b>	<b>\$6,373,864</b>	<b>-\$4,324,882</b>	<b>-\$4,324,882</b>	<b>-\$10,698,746</b>	<b>-\$10,698,746</b>	<b>-168%</b>	<b>-167.9%</b>
<b>Excess (Deficit) of Rev over Exp</b>	<b>\$35,577,990</b>	<b>\$6,495,227</b>	<b>-\$11,878,973</b>	<b>-\$4,512,197</b>	<b>-\$18,374,200</b>	<b>-\$11,007,424</b>	<b>-283%</b>	<b>-169.5%</b>
<b>Income Statement Metrics</b>								
Operating Margin %	2.2%	0.0%	-2.3%	-0.1%	-20.8%	-0.7%		
Total Margin %	10.5%	2.2%	-3.7%	-1.4%	-70.0%	-32.7%		



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

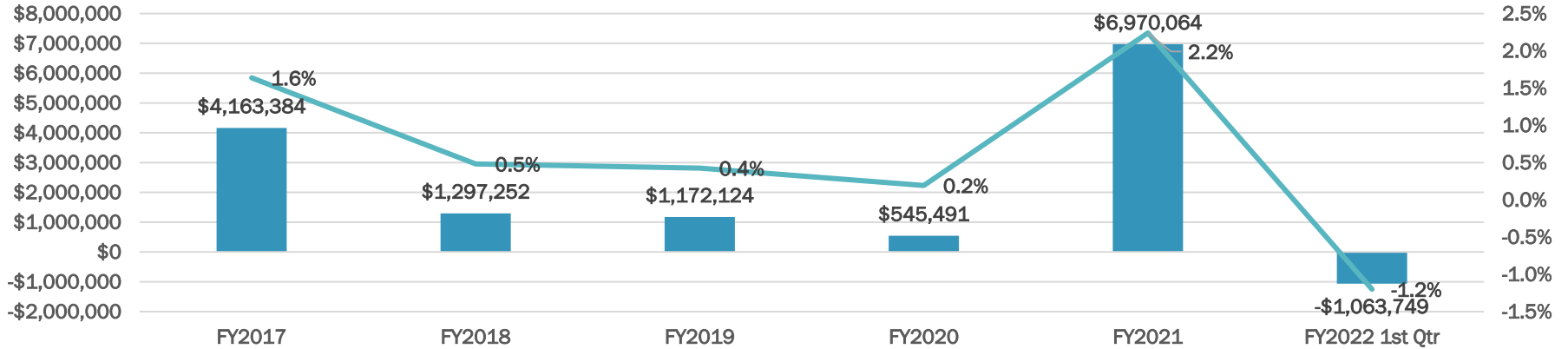


# Rutland Regional Medical Center: Request for Budget Modification- Projection with rate increase

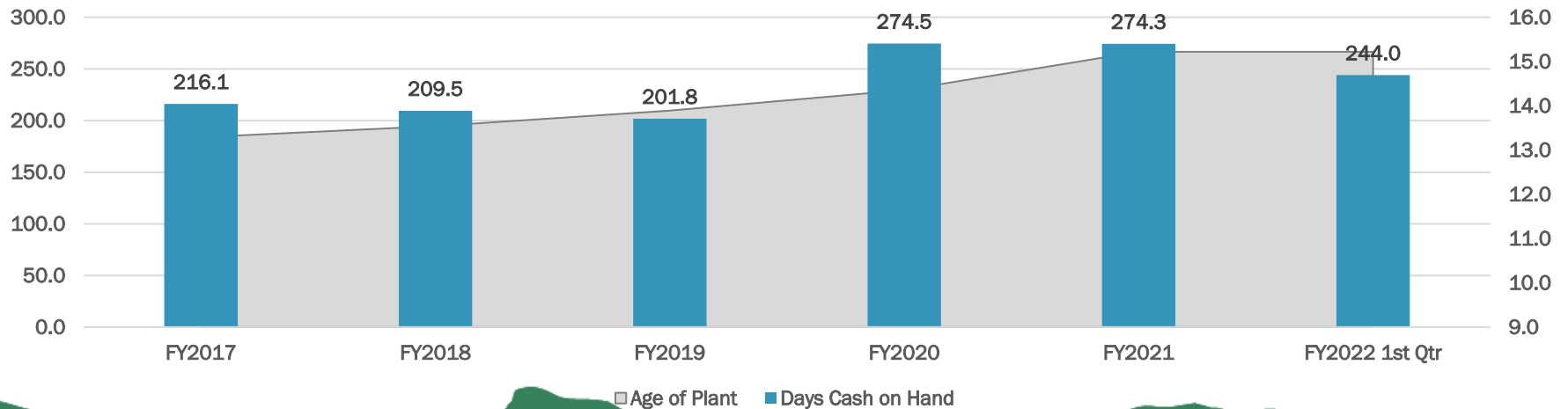


# Rutland Regional Medical Center

### Operating Margin



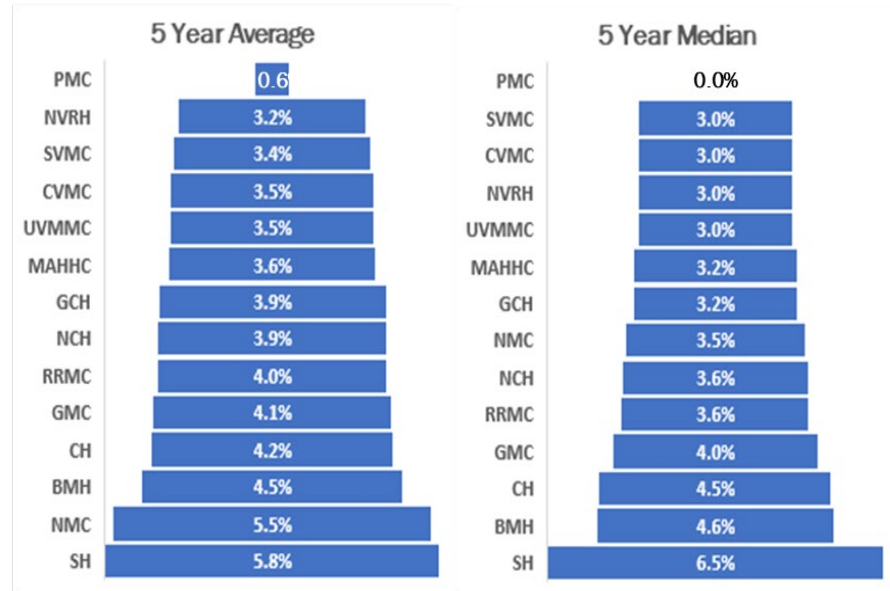
### Cash on Hand and Age of Plant



# Change in Charge: 5-year Average 2018- 2022 (revised)

- 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.

Change in Charge



\*PMC has been zero since FY2017

Commercial Effective Rate



Commercial Effective Rate 2017-2021

# Change in Charge: (revised)

- If approved, RRMC's new 5-year average would be 5.77%, second highest of the system for FY2018-FY2022.

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%	12.64%	5.77%	4.90%

# Distribution of Rate Increase\* :



The proposed rate increase will be targeted and not imposed as an overall rate increase. The table below shows service areas where RRMC plans to impose the increase should we receive approval.

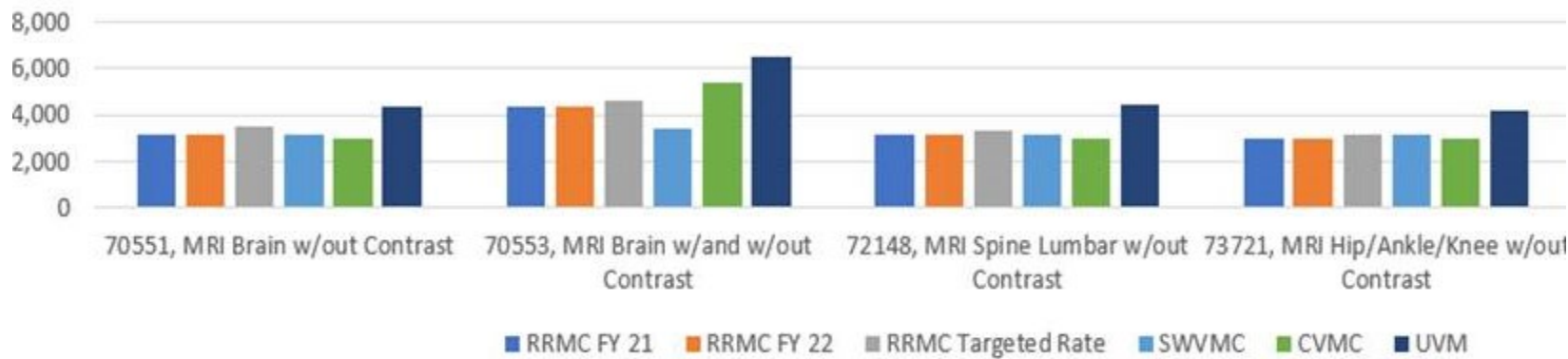
Service	Gross Revenue Increase			Net Reimbursement			Percentage Reimbursement
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total	Total
Clinic Services	\$ -	\$ 518,350	\$ 518,350	\$ -	\$ 176,372	\$ 176,372	34.0%
Diagnostic Imaging Services	\$ 129,377	\$ 476,870	\$ 606,246	\$ 15,810	\$ 122,746	\$ 138,555	22.9%
Emergency Services	\$ 173,063	\$ 1,391,500	\$ 1,564,563	\$ 22,030	\$ 352,258	\$ 374,288	23.9%
Anesthesia	\$ 97,980	\$ 449,880	\$ 547,860	\$ 20,024	\$ 157,359	\$ 177,383	32.4%
Laboratory Services	\$ 950,182	\$ 3,302,706	\$ 4,252,887	\$ 108,367	\$ 983,648	\$ 1,092,015	25.7%
Pharmaceutical Services	\$ 1,296,000	\$ 16,560,000	\$ 17,856,000	\$ 171,102	\$ 3,678,917	\$ 3,850,019	21.6%
Other DI Services	\$ 624,545	\$ 2,841,319	\$ 3,465,864	\$ 76,318	\$ 731,352	\$ 807,670	23.3%
Surgical Services	\$ 1,445,136	\$ 1,503,000	\$ 2,948,136	\$ 316,766	\$ 433,708	\$ 750,474	25.5%
<b>Total</b>	<b>\$ 4,716,282</b>	<b>\$ 27,043,624</b>	<b>\$ 31,759,906</b>	<b>\$ 730,417</b>	<b>\$ 6,636,359</b>	<b>\$ 7,366,776</b>	<b>23.2%</b>
				15.5%	24.5%	23.2%	
	<b>Overall Rate Increase</b>		<b>9.0%</b>				
	<b>Net Revenue Per Percent</b>		<b>\$ 820,353.70</b>				

# Distribution of Rate Increase\* :

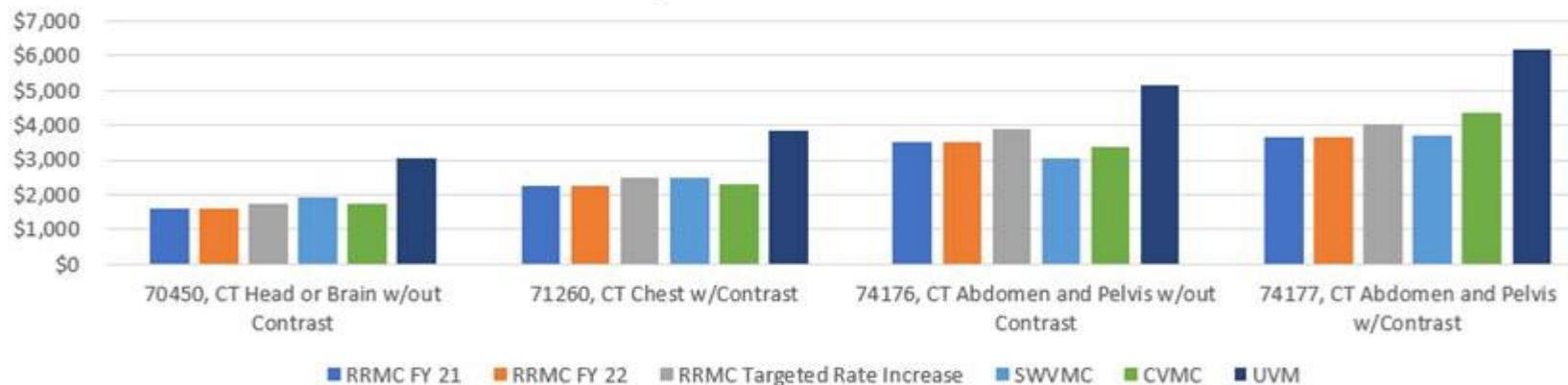


The proposed rate increase will be targeted and not imposed as an overall rate increase. The table below are samples showing RRMC's rates versus those of other hospitals.

### Top Volume MRI Rates



### Top Volume CT Rates

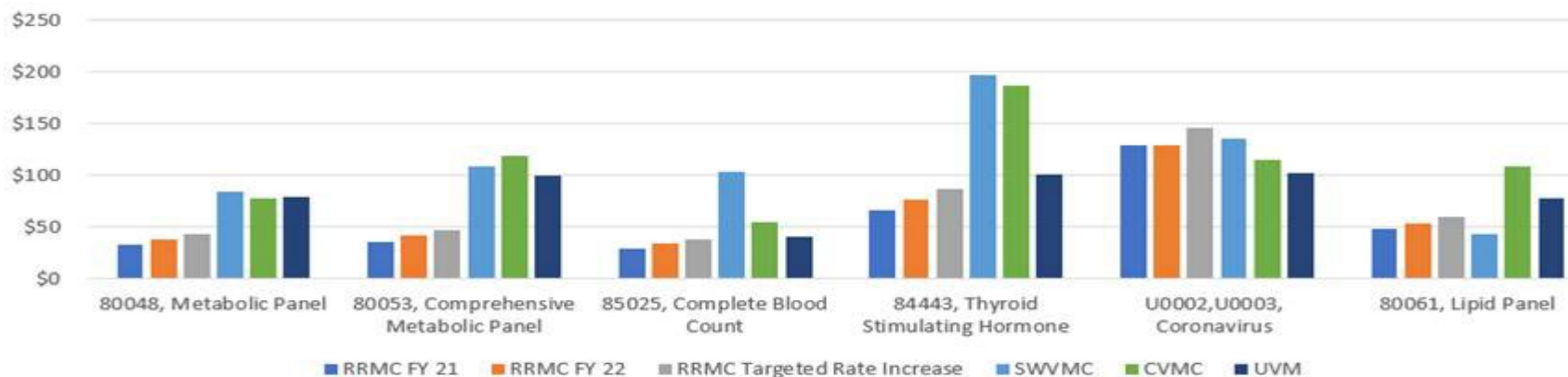


# Distribution of Rate Increase\* :

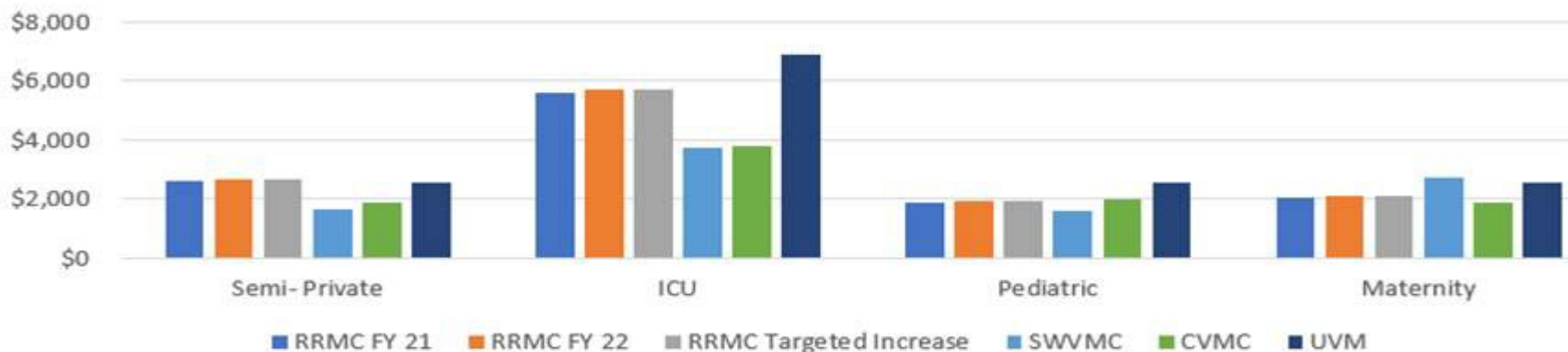


The proposed rate increase will be targeted and not imposed as an overall rate increase. The table below are samples showing RRMC's rates versus those of other hospitals.

Top Volume Lab Rates



Room And Bed Rates





# Inflation Factors



- FY2022 Budget

	% Increase	\$ Increase	Category % of Total Operating Expense Budget	Weighted Average (Column C * Column E)	
<i>Example: Wages/Compensation- Medical Staff</i>	2%	\$ 500,000.00	60%	1.2%	<i>This is inflation price effect only, does not account for new hires (volume).</i>
Wages/Compensation - Medical Staff	2%	\$ 666,660	11.8%	0.2%	
Wages/Compensation - Non-Medical Staff	6%	\$ 3,827,055	32.9%	2.0%	
Drugs	6%	\$ 1,125,599	5.5%	0.3%	
Medical Supplies	8%	\$ 657,063	2.5%	0.2%	
Non-Medical Supplies				0.0%	
Contract Staffing	100%	\$ 1,042,800	1.7%	1.7%	
Other (Please Specify)				0.0%	
Other (Please Specify)				0.0%	
<b>Total</b>	<b>%</b>	<b>\$ 7,319,177.00</b>	<b>54%</b>	<b>4.4%</b>	
NOTE: Unless the tax rate has changed, <u>DO NOT INCLUDE</u> Provider Tax.					

# Inflation Factors



- FY2022 Projected Experience

	% Increase	\$ Increase	Category % of Total Operating Expense Budget	Weighted Average (Column C * Column E)	
<i>Example: Wages/Compensation- Medical Staff</i>	2%	\$ 500,000.00	60%	1.2%	<i>This is inflation price effect only, does not account for new hires (volume).</i>
Wages/Compensation - Medical Staff	4.8%	\$ 1,826,343	11%	0.5%	Includes \$1,515,435 in one time retention bonus
Wages/Compensation - Non-Medical Staff	9.6%	\$ 10,930,563	34%	3.2%	Includes \$6,309,182 in one time retention bonus
Drugs	6.8%	\$ 958,098	6%	0.4%	Increase in overall cost to charge ratio
Medical Supplies	13.2%	\$ 1,360,836	3%	0.4%	Increase in overall cost to charge ratio
Non-Medical Supplies				0.0%	
Contract Staffing	124%	\$ 8,109,729	5%	5.8%	Increase in traveler rates being paid
Other (Please Specify)				0.0%	
Other (Please Specify)				0.0%	
<b>Total</b>	<b>%</b>	<b>\$ 23,185,568</b>	<b>59%</b>	<b>10.5%</b>	

# Inflation Factors

- Analysis

Inflation Category	Inflation %			Inflation \$			Adjustment for One-time Incentives	Projected Increase w/o One-time Adjustments	Adjusted Variance to Budget
	Budget Increase%	Proj Increase %	Variance to Budget	Budget Increase \$	Proj Increase \$	Variance to Budget			
	Wages/Compensation - Medical Staff	2%	4.8%	2.9%	\$ 666,660	\$ 1,826,343			
Wages/Compensation - Non-Medical Staff	6%	9.6%	3.6%	\$ 3,827,055	\$ 10,930,563	\$ 7,103,508	\$ 6,309,182	\$ 4,621,381	\$ 794,326
Drugs	6%	6.8%	0.8%	\$ 1,125,599	\$ 958,098	\$ (167,501)	\$	\$ 958,098	\$ (167,501)
Medical Supplies	8%	13.2%	5.2%	\$ 657,063	\$ 1,360,836	\$ 703,773	\$	\$ 1,360,836	\$ 703,773
Contract Staffing	100%	124.5%	24.5%	\$ 1,042,800	\$ 8,109,729	\$ 7,066,929	\$	\$ 8,109,729	\$ 7,066,929
Totals:				\$ 7,319,177	\$ 23,185,568	\$ 15,866,391	\$ 7,824,617	\$ 15,360,951	\$ 8,041,774

- Attempt to segregate one-time cost impacts that won't carry in perpetuity.

# Peer Group Comparison



- Fitch Solutions peer groups are based on organizations of relative revenue size to the 6 VT PPS hospitals.
- RRMC financial result are as of Q1 2022.

		Fitch Solutions		
	RRMC	Vermont PPS 1st Qtr 2022	Northern NE 2019	Northeast 2019
Operating Margin%	-1.23%	0.37%	1.20%	0.80%
Total Margin%	2.14%	6.29%	2.00%	3.50%
DCOH	244	152	162.2	164.3
Days Payable	70.6	56	62.1	63.2
Days Recievable	28.3	31	41.1	43.1
DSCR :1	7.78	2.015	2.74	2.81
LTD to Capitalization	15%	16%	25.6%	34.8%

VT PPS FY2022 1st Qtr

**Fitch Ratings Solutions**

Northern New England FY2019

Northeast FY2019

- 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.

- 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.
- RRMC was asked about specific financial covenant triggers relating to bond covenants.
  - The concern related to our bond covenants is specific to our projected operating loss and its impact on our Debt Service Coverage ratio. With a projected Fiscal 2022 operating loss of \$7.5 million, our debt service coverage ratio would fall to 1.79 against our bond covenant of 1.40. Should our operating loss in Fiscal 2022 drop to \$9.0 million our debt service coverage ratio would fall below 1.40.

# 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 12.64% 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.*