

February 25, 2022

via email

Green Mountain Care Board
 144 State Street
 Montpelier, Vermont 05602

Dear Green Mountain Care Board Members:

Pursuant to 18 V.S.A. § 9456(f) and Section D. of the Policy on Budget Amendments and Adjustments, Rutland Regional Medical Center, Inc. ("RRMC") is submitting a letter of intent requesting an amendment to its FY 2022 approved budget and a rate increase averaging 9%, effective April 1, 2022. As detailed in the attached November 30, 2021 letter to you, the amendment is needed to address material changes in RRMC's FY 2022 budgeted revenues and expenses because of both the unanticipated and enormous demand for services year to date and the serious expense challenge for RRMC to recruit and maintain sufficient staffing in all services and departments.

Given the significance of the changes in both our revenue expectations and expense commitments, we re-projected our expected financial performance to account for these changes. The heightened volume and the recent federal relief funding has supported some of the inflationary expense overrun. No additional federal relief is expected, however, nor is either the Medicare or the Medicaid program recognizing the inflation in work force costs. Consequently, with a significant operating loss projected as detailed below, RRMC has no choice but to raise commercial rates to support our operations. As of January, we are projecting a \$7.6 million operating loss for FY 2022, as follows:

	Fiscal 2021 Actual	Fiscal 2022 Projected	2022 Projected w/ rate increase	Fiscal 2022 Budget
OPERATING REVENUE				
Inpatient Routine Revenue	\$81,394,264	\$96,778,243	\$96,778,243	\$90,415,758
Inpatient Ancillary Revenue	127,402,598	\$140,997,421	\$145,713,703	131,154,365
Outpatient Revenue	429,039,413	\$459,766,330	\$486,809,954	418,268,510
TOTAL PATIENT SERVICE REVENUE	\$637,836,275	\$697,541,994	\$729,301,900	\$639,838,633
Total Allowances	\$354,995,504	\$390,310,077	\$414,208,496	\$361,822,542
Provision for Uninsured	\$10,635,039	\$10,294,769	\$10,994,256	\$9,876,429
Medicaid DPS	(\$3,346,115)	(\$3,399,846)	(\$3,604,622)	(\$3,435,517)
Net Allowances	\$362,284,428	\$397,205,000	\$421,598,130	\$368,263,454
NET PATIENT SERVICE REVENUE	\$275,551,847	\$300,336,994	\$307,703,770	\$271,575,179
Fixed Prospective Payment	\$456,369	(\$736,057)	(\$736,057)	(\$1,213,808)
Other Operating Revenue	\$21,000,906	\$21,063,435	\$21,063,435	\$20,745,734
COVID Funding	\$14,346,776	\$7,406,612	\$7,406,612	\$0
Total Other Operating Revenue	\$35,347,682	\$28,470,047	\$28,470,047	\$20,745,734
TOTAL OPERATING REVENUE	\$311,355,898	\$328,070,984	\$335,437,760	\$291,107,105
OPERATING EXPENSES:				
Salaries & Payments to Physicians	\$35,560,913	\$37,808,261	\$37,808,261	\$34,314,275
Salaries - Other	\$97,665,678	\$113,500,781	\$113,500,781	\$95,658,732
Supplies & Expense	\$141,604,505	\$152,560,520	\$152,560,520	\$130,673,919
Medicaid Tax Assessment	\$15,739,721	\$17,574,079	\$17,574,079	\$16,064,517
Provision for Depreciation	\$12,633,291	\$12,712,259	\$12,712,259	\$12,712,258
Interest & Other Bond Expense	\$1,181,728	\$1,469,175	\$1,469,175	\$1,562,040
TOTAL OPERATING EXPENSES	\$304,385,836	\$335,625,075	\$335,625,075	\$290,985,741
EXCESS OPERATING REVENUE	\$6,970,062	(\$7,554,091)	(\$187,315)	\$121,364
NET REVENUE TO GROSS REVENUE	43.20%	43.1%	42.2%	42.4%
NET PROFIT FROM OPERATIONS	2.5%	(2.5%)	(0.1%)	0.0%

As shown above and described in RPMC's November 30, 2021 letter, staff compensation, recruitment and retention costs have dramatically increased, and RPMC continues to work toward stabilizing this situation. RPMC's staffing costs are now projected to be 27% greater than the amount in RPMC's approved FY 2022 budget—approximately adding an additional \$35 million in operating expense, \$11.6 million of which reflects inflated costs of staff from temporary or traveler staffing companies. The hourly rates for traveling staff have increased between 250% and 300% since FY 2019. For instance, the rate charged for an emergency department nurse had been \$70 per hour in 2019, but has risen to \$180 per hour in 2022. The rate for a traveling ICU nurse was \$120 per hour in 2020, but is now \$200 per hour. A traveling respiratory therapist cost \$55 per hour in 2019 and now costs \$175 per hour.

The costs to retain and recruit staff and to engage temporary "traveling" staff are not going to decrease. Despite the compensation increases and incentives that RPMC has implemented, it still has over 170 open positions, 84 of which are nurse or LNA positions. As a result, RPMC's assumptions on staffing costs for the balance of the fiscal year as set forth above may actually be low.

Budget Amendment and Rate Increase Request:

Based on the FY 2022 re-projected financial performance detailed above, RPMC is requesting that the Green Mountain Care Board reconsider our budget. Specifically, we request approval of an increase in RPMC's rates by an average of 9%, effective April 1, 2022. The rate increase request has been calculated to target specific services and will not be imposed as an overall rate increase. We have selected the services to be impacted by the increased rates based on our current payer mix with sensitivity for preserving access to supportive primary care services and with consideration for the market rates in each service affected.

Overall, the rate request is modeled to offset most of the expected FY 2022 operating loss. In doing so, we have targeted the rate increase to raise \$31.8 million of gross revenue which would generate \$7.4 million of net revenue. Due to our payer mix and reimbursement methodologies, the rate increase will be most impactful in outpatient services. It is critical that the rate increase be approved with an effective date of April 1, 2022 in order to avoid a substantial year end deficit and to support the workforce needed to staff RPMC's services.

Consistency with FY 2022 Budget Order:

In accordance with the requirements of the FY 2022 Hospital Budget Order, RPMC advised the Green Mountain Care Board of material changes in its FY 2022 budgeted revenues and expenses in the attached November 30, 2021 letter as a result of the resurgence of COVID, the unanticipated demand for services and the serious expense and challenges to recruit and maintain sufficient staff for all services and departments. Specifically, that letter explains the deliberate approach RPMC is taking to support and fairly compensate its staff.

In considering the Green Mountain Care Board's FY 2022 Budget Decision and Order, the following Findings of Fact related to RPMC's original rate request are relevant in supporting the Budget Amendment request made now: Findings of Fact ¶ 8 - the 3.63% FY 2022 charge increase request does not cover the impact of inflation, and therefore RPMC must rely on increased volume instead; Findings of Fact ¶ 9 - compared to all Vermont hospitals, RPMC has the lowest compound annual rate growth from FY 2019 to FY 2022; Findings of Fact ¶ 11 - RPMC's 3.6% change in charge was less than the weighted average for all VT community hospitals with RPMC having an average approved change of 2.21% over the five years from FY 2017 to FY 2021; and Findings of Fact ¶ 12 - RPMC's relatively low change in charge has been attributable to investment returns which have been used to support operations. RPMC has worked diligently to maintain low rate increases, but current conditions relating to staff expense have resulted in unsustainable operating losses, and it cannot continue this approach of

relying on volume and investments. This mid-year rate increase request still seeks to be as conservative as possible.

Board Approval:

As required in the Budget Amendments and Adjustments Policy, RRMCM must obtain approval of this request to amend its budget and increase rates by an average of 9%, effective April 1, from its Board of Directors. On February 15th, RRMCM's Executive Finance Committee reviewed RRMCM's reprojected financial performance and budget adjustment request. The Committee approved the request as presented. The RRMCM Board of Director will review the request on March 2, 2022. We will notify you immediately after that meeting of the Board's action. We have filed this request in advance of the Board's decision based on the approval of the Executive Finance Committee because it is necessary that RRMCM implement the requested rate increase as of April 1, 2022 in order to have the best opportunity to respond to the continued inflationary pressure on staffing costs which is present now and is not expected to change.

Please direct any questions pertaining to the FY 2022 Budget or this request to Judi Fox, contact information jfox@RRMC.org or 802.747.1632.

Respectfully Submitted,



Claudio D. Fort
President & CEO



Judi K. Fox
Chief Financial Officer