FY2022 GMCB Financial Narrative

Rutland Regional Medical Center

EXECUTIVE SUMMARY

Provide a summary of the hospital's FY22 budget submission, including any information the GMCB should know about programmatic changes, such as staffing and operational changes and any further impacts of COVID-19. Please include the hospital's response to COVID-19 vaccinations and how it affects operations.

The guiding principles that support the 2022 Operational Budget are predicated on balancing our need to promote access to patient care in a cost-efficient manner while at the same time addressing the inflationary pressures that healthcare faces. Our approach was to limit the need to increase our rates while at the same time being stringent on adding any new discretionary costs to the system. The result is a 2022 Budget that relies on a strong Balance Sheet while aiming for breakeven financial performance.

Overall, net revenue and volume are budgeted to return to "pre-COVID" levels. Budget to budget we are estimating a revenue increase of $22.8 million, while projection to budget we estimate an additional $3.5 million. Our outpatient service volume has already reached pre-COVID volumes, our 2022 projections assume that we will continue to operate as we have in the first 6 months of fiscal year 2021. Our inpatient volume continues to lag by about 2%, we assume a full recovery in 2022 with additional bed days in surgical care and medical oncology.

Our budget is reliant on a rate increase. We have included a rate increase of 3.6%, which provides $4.5 million of additional net revenue. We do not anticipate a significant change in payer mix and therefore hold our payer mix percentages consistent with prior year levels. Commercial discounts are based on current contractual obligations and any changes in commercial billing procedures we have identified thus far. We assume continued participation in all OneCare risk programs and estimate that the cost of program participation will be $1.3 million. We have not included a risk settlement for any of the OneCare programs. Lastly, as of October 1, 2021, we will be required to adopt the new Revenue Recognition Standards as included in Financial Accounting Standards Board standard ASC 606. The impact for 2022, increases our net revenue by approximately $1.5 million.

Our cost structure is increased due to the cost of supplies related to the increased revenue and additional staffing (21 FTEs) necessary to support the increased patient volume. We have reviewed current spend patterns and estimate inflation to be $9.3 million, outlined in section 6.C below. Other areas of significant increase included investments in information technology to support advanced efforts in privacy and security in response to cyber risks, the fixed 6% DPS premium and inflationary costs in our employee benefits. All outlined section 6 below.

YEAR-OVER-YEAR CHANGES

Explain each component of the budgeted FY22 based on the prompts below, please explain the hospital's budget-to-budget growth (or decline), budget-to-projection growth (or decline), including any ongoing COVID-19 assumptions.

Please provide revenues and expenses related to COVID-19 vaccination clinics and testing as part of the FY22 budget, as well as FY21 projection, in a separate schedule (i.e., income statement) in Appendix 5 of **Part B** in the Appendices section. If possible, please include employees.

1. Net Patient Revenue and Fixed Prospective Payments (NPR/FPP)

   Referencing the data submitted in Appendix 1 of **Part B** below, explain each component of the budgeted FY22 NPR/FPP change over the approved FY21 budget, referencing relevant FY22 budget-to-projection variances.

Table 1: NPR Variance - FY 2021 Approved Budget to FY 2022 Proposed Budget

NPR	Total	Total Medicare	Total Medicaid	Total Commercial	Total Self-Pay/Other	DSH
FY 2021 Approved Budget	$ 247,487,684	$ 92,412,110.00	$ 23,965,071.00	$ 130,783,846.00	$ (3,043,668.00)	$ 3,370,325.00
Rate Effect	$ 4,534,318			$ 4,427,806.00	$ 106,512.00	
Disproportionate Share Payments (DSH)	$ 65,192					$ 65,192.00
Utilization (not factoring in change in charge request)	$ 11,631,953	$ 10,977,022.00	$ 2,456,247.00	$ (1,354,380.00)	$ (446,936.00)	
Fixed Prospective Payments	$ 914,588		$ 914,588.00			
Provider Acquisitions/Transfers	$ -					
Changes in Accounting	$ 3,083,499	$ 209,334.00	$ 4,357,334.00	$ (9,269,050.00)	$ 7,785,881.00	
Reimbursement/Payer Mix	$ 4,795,417	$ 6,878,556.00	$ (1,025,191.00)	$ 561,228.00	$ (1,619,176.00)	
Bad Debt/Free Care	$ (2,310,540)				$ (2,310,540.00)	
Other (Psych ICU and ADAP)	$ 159,260				$ 159,260.00	
Other (specify)	$ -					
Other (specify)	$ -					
FY 2022 Proposed Budget	$ 270,361,371	$ 110,477,022	$ 30,668,049	$ 125,149,450	$ 631,333	$ 3,435,517

$ Change from FY 2021 Approved Budget	$ 22,873,687	$ 18,064,912	$ 6,702,978	$ (5,634,396)	$ 3,675,001	$ 65,192
% Change from FY 2021 Approved Budget	9%	20%	28%	-4%	-121%	2%

Impact of COVID-19 vaccination clinics and testing	$ 479,303
FY 2022 Proposed Budget without COVID-19 vaccination clinics and testing	$ 269,882,068

$ Change from FY 2021 Approved Budget to Adjusted FY 2022	$ 22,394,384
% Change from FY 2021 Approved Budget to Adjusted FY 2022	9%

In total revenue increased by 9% or $22.8 million. However, using the FY 2021 as the base to evaluate our increase is misleading as we reduced our NPR budget in 2021 by $20.2 million or 7.6% due to COVID. Using our 2019 Actual revenue as a base and trending forward for years 2020, 2021 and 2022 the growth in our 2022 budget is less than 2% per year, which demonstrates adherence to the GMCB regulated NPR growth rate of 3.5% each year.

The impact of the changes in accounting, namely the new Revenue Recognition standard, have a significant impact on the NPR from a payer perspective and therefore render the analysis by payer not to be useful. Based on our payer mix we expect the growth in NPR, driven by volume, to be associated with Medicare and Medicaid. Growth in commercial insurance is caused by rates.

i. Discuss changes in NPR/FPP expected from Medicare, Medicaid, and Commercial, and other reimbursements from government payers.

Overall, we have kept our payer mix consistent from year to year. The adoption of the Revenue Recognition skews net revenue by payer.

We do not expect any changes in NPR/FPP for Medicare and Medicaid fee for service volume. The inflationary market basket update for Medicare reimbursement has been offset by our expectation that Medicare sequestration will be reinforced.

Commercial programs are budgeted based on current contracts and any known payment program changes. The 3.5% rate increase nets approximately $4.5 million across commercial payers.

We have not budgeted any settlement for the Medicare or Medicaid OneCare program in the 2022 Budget.

ii. Also include any significant changes to revenue assumptions from FY21 (e.g., Centers for Medicare and Medicaid Services (CMS) and Department of Vermont Health Access (DVHA) reimbursement policies, reimbursement adjustments, settlement adjustments, reclassifications, other accounting adjustments, rate changes, utilization, and/or changes in services). 1. Include an analysis, as required under 18 V.S.A. § 9456(b)(9), that reflects a reduction in net revenue needs from non-Medicaid payers equal to any anticipated increase in Medicaid, Medicare, or another public health care program reimbursements, and to any reduction in bad debt or charity care due to an increase in the number of insured individuals.

Refer to response in "i" above.

In setting commercial rates we included any impacts in State a Federal payers. The cost shift related to State and Federal payers continue to grow year over year. To mitigate the increase in the commercial rate we have held our operating margin to breakeven.

iii. In the Vaccine Clinics and Testing (the allowance discussed above) tab of Appendix 5 of Part B include the revenues and expenses incurred by the hospital for providing employee and public COVID-19 vaccine clinics and testing. 1. Please discuss the impact COVID-19 vaccine clinics and testing has on the FY21 projection and FY22 budget.

Appendix 5

Do not Modify

Vaccine Clinics and Testing

Where is your hospital reporting Vaccine/Testing Revenues and Expenses?

Fiscal Year 2022 Budget Analysis

INCOME STATEMENT	2021 Projection Vaccine/Testing Income Statement Supplement	2022 Budget Vaccine/Testing Income Statement Supplement
Revenues		
Net Patient Care Revenue	$2,243,848	$479,303
Fixed Prospective Payments, Reserves & Other	$0	$0
Total NPR & FPP	$2,243,848	$479,303
COVID-19 Stimulus and Other Grant Funding	$882,149	$0
Other		
Other Operating Revenue	$882,149	$0
Total Operating Revenue	$3,125,997	$479,303
Operating Expense	$2,481,749	$359,130
Net Operating Income	$644,248	$120,173
Non Operating Revenue	$0	$0
Excess (Deficit) of Rev over Exp	$644,248	$120,173
Income Statement Metrics		
Operating Margin %	20.6%	25.1%
Total Margin %	20.6%	25.1%

Although we are operating a vaccination clinic for Rutland County we did not charge for any services. All costs related to vaccine administration were reimbursed by the State of Vermont Agency of Human Services. The vaccine clinic officially opened in February 2021 and was closed in June 2021. During this time, the clinic administered approximately 51,000 vaccines.

We opened a Specimen Collection Center in 2020 to provide safe and efficient access for COVID testing. The Collection Center has generated $2.2 million of net revenue based on nearly 40,000 tests. This revenue added $644,000 of net income. Given the success in vaccine adoption we continue to see a reduction in testing volume. While we expect this testing to continue it is at significantly lower levels than demonstrated in 2021.

2. NPR/FPP: Utilization
   a. Describe any significant variances from the FY21 budget and projection (including changes in reimbursements and utilization).

NPR is expected to be $19.3 million more than expected. This increase in volume is associated with outpatient services. Inpatient services remain under budget by about 2%. The outpatient volume is driven primarily by 4 services: surgery, imaging, pharmaceuticals, and clinic visits.

   b. Referencing the data submitted in Appendix 3 of **Part B** below, explain changes in your utilization assumptions to support your NPR/FPP variances.

Overall, we budgeted a return of volume and revenue to "pre-COVID" levels. Budget to budget we are estimating a revenue return of $22.8 million, while projection to budget we estimate an additional $3.5 million. Our outpatient service volume has already reached pre-COVID volumes, our 2022 projections assume that we will continue to operate as we have in the first 6 months of fiscal year 2021. Our inpatient volume continues to lag by about 10%, we assume a full recovery in 2022 with additional bed days in surgical care and medical oncology.

3. Charge Request
   a. Referencing the data submitted in Appendix 2 of **Part B** below, explain the hospital's overall charge request on the charge master in Table 1.

Table 1: Please provide the requested charge master increase by area of service without of utilization and acuity.

Charge Master Increase Schedule (Charge Increase)		
Area of Service	FY 22 Budget Total Charge Master Increase ($)	FY 22 Budget Total Charge Master Increase (%)
Hospital Inpatient (Incl. SNF & Rehab)	$ 7,795,122	4.0%
Hospital Outpatient	$ 14,850,812	4.2%
Professional Services	$ (202,956)	-0.3%
Other (specify)	$ -	0.0%
Overall Increase in Gross Revenues Across All Categories	$ 22,442,978	3.6%

Our budget includes an overall rate increase of 3.64%, which provides approximately $4.5 million of additional net revenue. We reviewed available data through the State's Act 53 required reporting and each hospital's pricing information posted on their website as part of pricing transparency.

b. Explain how the request impacts gross revenue, NPR and FPP by payer and what assumptions were used in quantifying the requested increase/decrease for each in Tables 2-3. Describe how the charge request affects the areas of service (for example, inpatient, outpatient, etc.) in gross revenues, NPR and FPP by payer. Explain the underlying assumptions and methodology used to make that allocation.

Table 3: Please provide FY21 budgeted NPR/FPP and FY22 budgeted NPR/FPP by category of service taking into account the gross revenue assumptions in Table 2.

NPR ($) Analysis by Payer								
Areas of Service	FY21 Budget NPR	Budget-to-Budget Variance ($)	FY22 Budget NPR	NPR by Commercial Payer		NPR by Self-Pay/Other	NPR by Medicaid	NPR by Medicare
				In State	Other			
Hospital Inpatient (Incl. SNF & Rehab)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Hospital Outpatient	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Professional Services	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other (unable to provide NPR at Service	$ 247,487,684	$ 22,873,687	$ 270,361,371.00	$ (5,634,396.00)	$ -	$ 3,675,001.00	$ 6,768,170.00	$ 18,064,912.00
Total NPR Across All Categories	$ 247,487,684.00	$ 22,873,687.00	$ 270,361,371.00	$ (5,634,396.00)	$ -	$ 3,675,001.00	$ 6,768,170.00	$ 18,064,912.00

c. Please indicate the dollar value of 1% NPR/FPP FY22 in Table 4 of Appendix 2 of Part B below, overall change in charge.

As shown on Table 4 each dollar value raised by a 1% rate increase is $1,246,892.

4. Adjustments (physician transfers and accounting adjustments) a. Account for operational or financial changes, including provider transfers and/or accounting changes.

As of October 1, 2021, we will be required to adopt the new Revenue Recognition Standards as included in Financial Accounting Standards Board standard ASC 606. The impact for 2022, is a one-time increase in our net revenue by approximately $1.5 million.

5. Other Operating and Non-Operating Revenue

a. Explain the budgeted FY22 other operating revenue and non-operating revenue changes over the approved FY21 budget, as well as relevant FY21 budget-to-projection variances.

Other Operating Revenue decreased $238,000 from Budget 2021 to Budget 2022. This decrease is driven by a decline in our 340b program of approximately $285,000. In addition, we are anticipating a $118,000 decrease in our reference laboratory client revenue. Offsetting these declines is an increase in our Retail Pharmacy Program of approximately $193,000.

Our Other Operating Revenue increased $11.9 million from Budget 2021 to Projection 2021. This is a direct result of the COVID Relief Funds recognized in Fiscal 2021. RRMC does not anticipate receiving any additional relief funding in Fiscal 2022.

b. Please denote the COVID-19 advances, relief funds, and other grants received in Appendix 7 of **Part B** below, and the respective treatment of each funding source as of September 30, 2020, projected as of September 30, 2021, and budgeted as of September 30, 2022.

Refer to Appendix 7 below:

Appendix 7

Do not Modify, except cells labeled "Other"

COVID-19 Advances, Relief Funds, and Other Grants

Please denote the advances, relief funds, and other grants *received by the hospital* for COVID-19 as of the budget submission under the "Description" column. In addition, please note the amounts recognized in revenues or planned to be recognized in revenues, and/or recorded as a liability or planned to be recorded as a liability as of September 30, 2020, September 30, 2021 and September 30, 2022.

Description	Amounts Received Grand Total	Amounts Received	Recognized in Revenues As of Sept. 30, 2020	Recorded as a liability	Amounts Received	Recognized in Revenues As of Sept. 30, 2021	Recorded as a liability	Recognized in Revenues As of Sept. 30, 2022	Recorded as a liability
CARES Act Funding (see note below)	$ 19,662,164	$ 19,662,164	$ 5,357,449	$ 14,304,714	$ -	$ 12,668,082	$ 1,636,632		
Medicare Advance - Repayment	$ 25,000,000	$ 25,000,000	$ -	$ 25,000,000	$ -	$ -	$ 18,286,943	$ -	$ -
FEMA	$ -	$ -	$ 757,610	$ (757,610)	$ -	$ -	$ (757,610)	$ -	$ -
VT Blue Cross Advance	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
VT Healthcare Stabilization Grant	$ 13,091,075	$ 13,091,075	$ 13,091,075	$ -	$ -	$ -	$ -	$ -	$ -
VT Medicaid Retainer Funding	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
VT Hazard Pay Grant	$ 821,600	$ 821,600	$ 821,600	$ -	$ -	$ -	$ -	$ -	$ -
VT Unemployment Credit - CARES Act	$ 611,994	$ 516,631	$ 516,631	$ -	$ 95,363	$ 95,363	$ -	$ -	$ -
CARES Workforce Retention Credit	$ 527,960	$ 527,960	$ 527,960	$ -	$ -	$ -	$ -	$ -	$ -
PPP Funds	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
HPP Grant	$ 13,636	$ 13,636	$ 13,636	$ -	$ -	$ -	$ -	$ -	$ -
VAHHS Grant	$ 61,435	$ 18,443	$ 18,443	$ -	$ 42,992	$ 42,992	$ -	$ -	$ -
DCF Grant	$ 112,993	$ 112,993	$ 112,993	$ -	$ -	$ -	$ -	$ -	$ -
State Vaccine Clinic	$ 185,391	$ -	$ -	$ -	$ 185,391	$ 857,149	$ (671,758)	$ -	$ -
CIC Health	$ 120,633	$ -	$ -	$ -	$ 120,633	$ 137,633	$ (17,000)	$ -	$ -
ADAP	$ 2,640				$ 2,640	$ 2,640	$ -	$ -	$ -
Totals	$ 60,211,521	$ 59,764,502	$ 21,217,397	$ 38,547,104	$ 447,019	$ 13,803,859	$ 18,477,207	$ -	$ -

Note: Capital purchases used to justify Provider Relief Funds were not recorded as revenue instead posted as a change in fund balance. For this reason the Fiscal 2021 recognized revenues in this schedule will not agree to the Fiscal 2021 projected Profit & Loss.

In total RRMC received $34.7 million of State and Federal funding to support COVID. Of this, $19.7 was funded through the Federal Cares program. It is this funding that has yet to be finalized. Based on the regulatory ruling published in early June RRMC must have obligated all Federal funding by June 30, 2021 and must submit all required reporting by September 30, 2021. Based on the most recent regulations we expect to have to pay back $1.6 million of funding. All other funding has been approved and all revenue has been recognized.

We posted $21.2 million of COVID funding in 2020 and expect to record additional revenue of $12.2 million in 2021. In addition to revenue, we have offset capital expenditures, through Fund Balance, and are anticipating $1.5 million in Fiscal 2021. The primary capital expenditures included facility renovations to facilitate social distancing, addition of negative pressure rooms and laboratory equipment.

c. Please discuss to the best of the hospital's knowledge, any potential funds that could be received by the hospital (with an estimated timeframe) related to COVID-19 advances, relief funds, and other grants.

We have not anticipated any additional federal funding to support our response to COVID. Nor have we included any continued expenses.

d. Explain the relative stability of significant sources of other operating revenue and non-operating revenue and discuss strategies to address revenue streams the hospital considers unpredictable or unstable.

Our 2022 Budget includes $20.7 million of other operating revenue that directly supports our cost structure. Of this $11.4 relates to our 340B program. RRMC considers the 340B program to be at risk. There are numerous manufacturers that have begun to exempt contract pharmacies from participating in the 340B program for certain drugs. RRMC is impacted with increased cost of drugs and expects to lose more than $1 million a year.

The remainder of the other operating income is considered low risk and has been stable over several years.

6. Operating Expenses

a. Explain changes in budgeted FY22 operating expenses over the approved FY21 budget.

2021 Budget			**$ 266,770,898**
Salary and Benefits			
Physician Compensation	$	1,534,099	
Fringe Benefits	$	4,043,021	
Temporary Staffing	$	4,530,981	
2021 Salary Program	$	1,275,000	
2022 Salary Program	$	2,552,055	
Staffing Costs	$	1,942,947	
			$ 15,878,103
Supply Costs			
Supply Cost	$	3,070,317	
Inflation (Medical and Pharmaceutical)	$	3,179,479	
			$ 6,249,796
IT Costs			$ 1,402,820
Health Care Provider Tax			$ 1,644,884
All Other			$ 247,240
Cost Savings			$ (1,208,000)
2022 Budget			**$ 290,985,741**

In total our expense increased by $24.2 million year over year. The largest increase relates to added salary program costs to support our recruitment and retention efforts, which in the current labor environment are critical to ensuring adequate staffing and mitigating our reliance on temporary staff. While we have cut our temporary staffing by 50% (from actual expenditures) the budget still includes the support of 25 temporary staffing FTEs. The cost of supplies, both utilization and inflation, account for another $6.2 million.

b. Describe any significant variances between your FY22 budget and FY21 projections (e.g., variances in costs of labor, supplies, utilization, capital projects) and how those variances affected the hospital's FY22 budget.

2021 Projection	$	293,736,000
Salary and Benefits		
Hazard Pay / Retention Bonus	$	(5,000,000)
Merit / Market Increases	$	2,600,000
Supply Costs		
Inflation (Medical & Pharmaceutical)	$	5,500,000
COVID Response	$	(2,900,000)
Temporary Staff	$	(2,400,000)
Other	$	658,000
Cost Savings	$	(1,208,000)
2022 Budget	$	290,986,000

Our cost structure decreased by $2.8 million from projection. As outlined above a reduction in COVID expenses accounts for a reduction of $7.9 million. In addition, based on the added salary program funding that we have included in our budget we estimate that we will be able to reduce our utilization of temporary staff by 50% and saving $2.4 million. These saving along with our cost reduction effort offset the continued inflationary increases in supplies and labor.

c. Referencing the information and data submitted in Appendices 1 and 4 of **Part B** below and relevant portions of the FY22 budget submission, please discuss the categories of inflation and their relevance to the hospital's budget and operations.

Appendix 4

Do not Modify, except for cells labeled "Other"

Inflation

Identify key categories of operating expense inflation and provide the estimated inflation factor. This is not an assessment of overall growth of the category (i.e.-does not need to tie to the P&L). It should focus on price effects only (not utilization growth or new hires). Please follow the prompted categories below. Use the 'Other' lines to capture line items not listed that cover 5% or more of the budget, and then one as a "catch all" category so the entire operating expense budget is covered (i.e. Category % of Operating Expense Budget is 100%). Please explain inflation assumptions in the comment column.

Expense Category	Estimated Inflation				Comment
	% Increase	$ Increase	Category % of Operating Expense Budget	Weighted Average (Column C * Column E)	
Example: Wages/Compensation- Medical Staff	*2%*	*$ 500,000.00*	*60%*	*1.2%*	*This is inflation price effect only, does not account for new hires (volume).*
Wages/Compensation - Medical Staff	1.9%	$ 666,660.00	7.15%	0.14%	
Wages/Compensation - Non-Medical Staff	6%	$ 3,827,055.00	41.03%	2.46%	FY 2021 Wage Increase not budgeted. Budgeted 3% in FY 2021. Minimum wage increase
Drugs	6%	$ 1,125,598.81	12.07%	0.71%	Inflation based on actual FYTD 2.28.21 CCR - and additional 2.2% inflation
Medical Supplies	8%	$ 657,063.00	7.04%	0.55%	Inflation based on actual FYTD 2.28.21 CCR
Contract Staffing (Covid increase hrly rate)	100%	$ 1,042,800.00	11.18%	11.18%	RRMC pays $20/hour additional to Contract Staffing for Covid
Other Self Insurance	3.5%	$ 612,000.00	6.56%	0.23%	
Retail and 340b Program	19.9%	$ 1,396,817.00	14.97%	2.98%	
Other (Please Specify)				0.00%	
Total	%	$ 9,327,993.81	100.00%	%	

Inflation accounts for $9.3 million or about 3.5% overall.

The inflationary pressures of pharmaceuticals continue as has been demonstrated in past years and account for $2.5 million of additional budgetary costs. This inflation estimated is reflective of our current drug utilization trend and sets drug costs at current levels and adds an additional 2.1%.

Given the demands that COVID has placed on care providers across the nation and within our own community recruitment of staff has been a challenge. The demand to hire care providers far exceeds our ability to recruit staff. RRMC currently is challenged with a heightened rate of turnover (16.2% since March of 2020) which has resulted in 136 open positions and necessitated that we incur costs of approximately $1.0 million a month to fill staffing requirements with temporary staff. As a result of the disproportion of supply and demand of qualified healthcare personnel the labor market has become highly competitive. The competitive labor market is driving up the costs to retain and recruit staff. The inflationary impact on our budget is two-fold. To retain and recruit our own staff we have added $4.5 million of inflationary expense, half of which we realized in December, to fund salary programs that aim to respond to the competitive recruitment environment. The second inflationary challenge is accounted for in temporary staffing were in addition to an increased need to rely on more temporary staff we also faced significant increases in hourly rates. The inflation related to temporary staff, not including increased staffing demand, drives $1.0 million of costs.

d. Describe any cost saving initiatives proposed in FY22 and their impact on the budget.

Our budget includes $1.2 million of cost savings:

- *Physician Salaries –restructure of Medical Directorships.*
- *Employee Benefits: – earned time off and reduction in tuition reimbursement.*
- *Lease Expense – termination of leases due to the addition of the Medical Office Building and the transition of the former building from medical offices to administrative offices*
- *Information Technology – IT Help Desk service restructure*
- *Depreciation Expense – limits our 2022 capital spending to 1-times our depreciation, spending reduction of $2.6 million.*

e. Describe the impact operating expenses have on requested NPR/FPP.

Inflationary pressures related to pharmaceutical, medical supply and staffing have required us to include a rate increase in this budget. While most of this revenue was raised as part of the return of volume, we did rely on a limited rate increase. The issues with cost shifting from State and Federal programs continues and required that we raise our rates by 3.6%.

7. Operating Margin and Total Margin

a. Discuss the hospital's assumptions in establishing its FY22 operating and total margins. Explain how the hospital's FY22 margins affect its overall strategic plan. If the hospital relied on third party benchmarks or targets, please identify those benchmarks and sources (e.g., lending institutions, credit rating agencies, industry standards, parent company/affiliate policy). Please also discuss any relevant FY21 budget-to-projection variances.

The 2022 Budget is set to be breakeven. While we understand that this cannot be a long-term strategy, we believe that this is the best strategic option this year. The pandemic has caused a significant amount of uncertainty, not only in healthcare but throughout the local, State and National economies. We believe that our strong Balance Sheet allows us time to better understand long-lasting impacts of changes in patient demand and care delivery while also focusing on efficiency and improvement studies that are currently in process but not yet complete. Our approach was to aim for a breakeven operating margin by limiting the need to increase our rates while at the same time delaying significant reductions in our cost structure until there was better information to support decision-making.

b. Does the hospital's budget request include support or a need to support any other entities outside of the physical hospital? An example includes a higher operating margin to transfer surplus to a subsidiary.

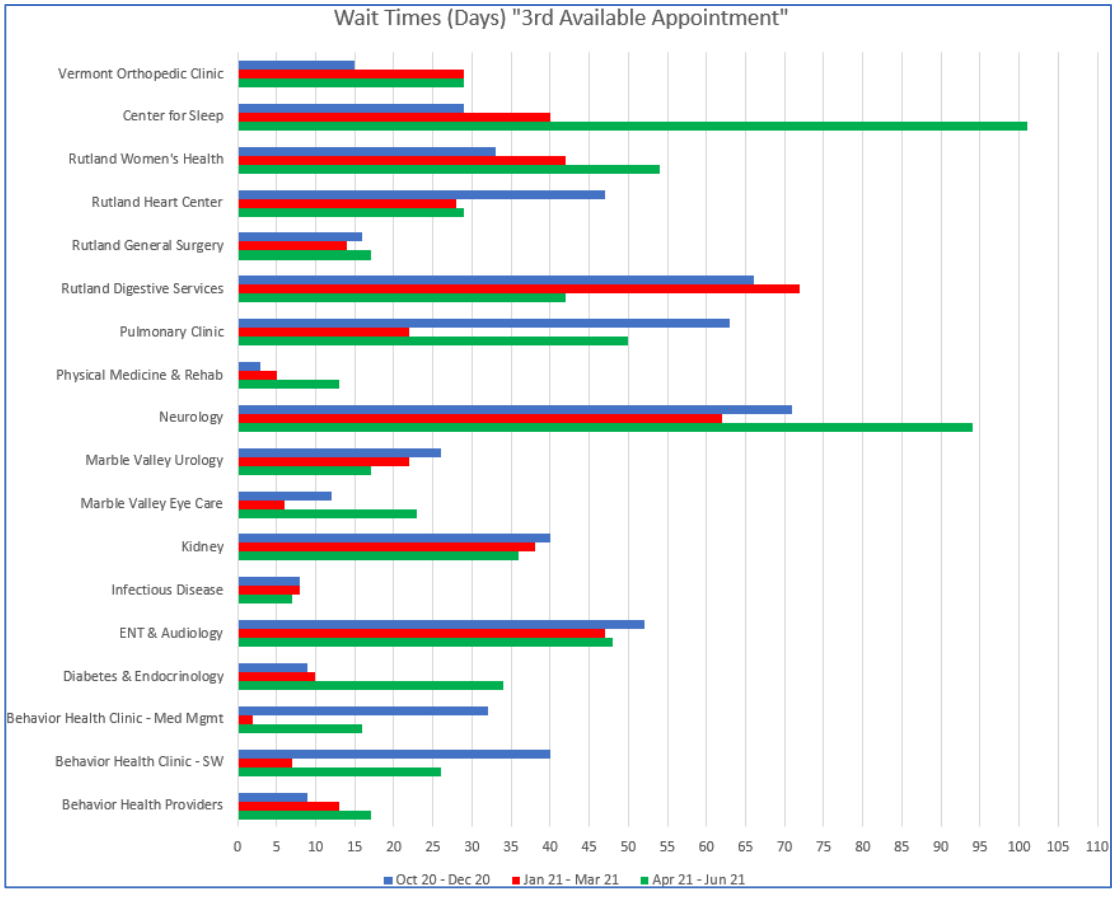
Our Fiscal 2022 budget does not include any support or need to support any other entities outside of the physical hospital.

RISKS AND OPPORTUNITIES

1. Please discuss the hospital's risks and opportunities in FY22. Recognizing the risks and opportunities in the current environment, please explain how the FY22 budget proposal supports strategies for addressing these issues.

We considered the significant risks that are associated with the budget. We determined that there are three risks that rise to the level of significance. The first relates to our ability to sustain the outpatient revenue volume. This level of outpatient volume has been demonstrated since July of 2020 and is most prevalent within our surgical services, imaging, pharmaceutical, and laboratory services. While we have not included any additional increase in volume above current levels, we have assumed that this heightened volume will continue through 2022. The second risk relates to our participation in the OneCare Risk programs. Based on the current risk thresholds and 19,835 attributed lives our total risk could be as much as $1.9 million. We have not included any risk estimate in our budget. Additionally, the financial details of the program that will begin in 2022 are still unknown. There could be changes in risk/reward corridors, percentage of risk within a corridor, attribution levels or other operational changes that relate to total cost calculations or payment methods that could impact the total risk that Rutland could face. The third area of risk relates to our ability to respond to our labor management challenges. We have provided approximately $2.5 million of funding to support retention and recruitment efforts in 2021. While we have included this funding, we will not know the impact of the labor management assessment until August nor will we have concluded our efforts in negotiating our RN Union contract which expires in September 2021.

2. Please describe the impact of COVID-19 on access to care/wait times at your organization, including the use of telehealth and telemedicine, COVID-19 related safety protocols, and other relevant factors.



To promote safe access to care RRMC quickly transitioned to remote healthcare options by utilizing both audio health services and Telehealth visits facilitated by doxy.me. Our volume from April 2020 thru May 2021is as follows:

Clinic/Dept	Audio Only	Telehealth	Grand Total
Center for Sleep Disorders	102	1,025	1,127
Psychiatric Counseling	-	267	267
Foley Cancer Center	-	3	3
Infectious Disease Clinic	7	2	9
Physiatry	47	865	912
Neurology	29	346	375
Behavioral Health Clinic	69	7,205	7,274
Endocrinology	287	2,281	2,568
Pulmonary	210	372	582
General Surgery	-	69	69
Women's Health	4	158	162
Digestive Services	11	160	171
Heart Center	89	858	947
Kidney Center	286	695	981
ENT	-	24	24
Urology	13	114	127
Orthopedics	2	163	165
Employee Health	-	2	2
Visit Totals	**1,156**	**14,609**	**15,765**

3. Please discuss any lessons learned from the COVID-19 pandemic thus far, and any positive changes the hospital has adopted or plans to adopt for the future.

The value in the transition to telehealth services to promote access to care is one of the biggest lessons learned for Rutland. While we transitioned quickly, the transition only afforded us access to care and not cost savings. To be meaningful and to achieve both increased access to high-quality care and reduce costs we will need to investment in information infrastructure and patient support navigators while at the same time redesigning the delivery of care through changes in scheduling and staffing systems. This investment will require a funding source and will need to be paired with long-term reimbursement policies that support the total cost of the redesigned delivery of care. In part the cost of the care will move from the clinic to patient's home where additional staffing will be needed to support the patient through the transition.

VALUE-BASED CARE PARTICIPATION

1. Referencing the data submitted in Appendix 6 of Part B below. Is the hospital participating value-based care programs in CY 2022 and, if so, please state what payer programs? If the hospital is not planning to participate in value-based care, please explain why.

Our Fiscal 2022 budget assumes continued participation in all OneCare risk programs. We estimate the cost of the program participation will be $1.3 million. This is the result of our requirement to fund population health and care management payments to primary care and dues to support OneCare operational expense.

Value-Based Care Program	Participating in Program in Calendar Year (CY) 2022? (Yes/No)	Budgeted Number of Attributed Lives (monthly average for CY 2022)	Budgeted Amount of FPP (monthly average for CY 2022)	Budgeted Maximum Upside/Downside Risk for CY 2022
Medicaid	Yes	9744	$ 18,499,545	$ (276,324)
Medicare	Yes	7335	$ 31,200,000	$ -
Commercial (not Self-Insured)	Yes	896	$ -	$ -
Self-Insured	Yes	1860	$ -	$ -
TOTAL		19835	$ 49,699,545	$ (276,324)

2. Please state what the hospital is projecting for ACO dues for FY21 and budgeting for FY22.

For Fiscal 2021, RRMC is projection ACO dues of $288,000. For budget 2022, we are anticipating ACO dues expense of $400,000.

3. Has the hospital, and if so, how has the hospital, changed the way the hospital delivers care as a result of participating in value-based payment programs? Which value-based funding sources were most instrumental in driving that change?

RRMC is focusing on the role that data and information must play in supporting care design/redesign. We have added FTE's specifically related to financial and clinical data analytics to understand and maximize value as defined by the ACO. We have also partnered with the primary care to promote the use of data and have helped to facilitate the addition of a community Population Health Director. Internally, RRMC has restructured transitional care coordinator role(s) to ensure that we mitigate any gaps or redundancies in care management. And our inpatient teams developed and implemented interdisciplinary inpatient rounding to further promote care that is integrated and not siloed.

4. What barriers and opportunities are there to further delivery system reform in your community?

One of the most significant barriers to delivery system form is the lack of timely and integrated data. While the vision is to develop integrated health systems with shared governance and decision-making authority the challenge is that data is not integrated and is siloed.

Additionally, the current model payment models are challenging. To date all the OneCare payer risk program, operate under a different payment model which result in a lack of clarity in how value is determined, and risks are assessed. In addition to the payment models the methodology to assess risk needs to be better understood. As the Stroudwater presentation concluded the fixed costs of hospitals present challenge in that taking a dollar of revenue out of the system only impact costs by about thirty cents. We need to find ways to support value-based care while at the same time ensuring full access to "sick" care.

5. What factors support, or inhibit, hospital participation in more value-based payment programs?

RRMC will participate in all OneCare programs for the 2022 year. There are many challenges that hospitals will face as they enter these value-based agreements. RRMC does not have reserves on

the balance sheet to support risk programs that may suffer losses, this means that any loss will need to be supported directly from the operating margin. The past performance of Vermont hospitals which demonstrates poor and dwindling operating margins puts the sustainability of the healthcare system at risk. In addition, we would conclude the following challenges.

- *Our HSA is so small that we lack economies of scale.*
- *Having a large portion of our patient population still under fee for service limits our ability and incentive to do major care delivery redesign.*
- *The lack of timely, actionable, patient level data*
- *Having to agree to participate in OCV each year before the terms of the agreement have been finalized.*
- *The artificial distinction between primary care and cognitive based chronic disease specialty care is problematic and fails to account for the common reality of shared care or specialists providing the majority of care.*
- *There is no financial incentive to provide care coordination resources to chronic disease specialty clinics (COPD/asthma, CHF, Diabetes)*

a. What is the "tipping point" or threshold, defined as the percentage that true FPP comprises of total NPR/FPP, necessary to support the successful transformation of your delivery system to a system substantially based on value-based care?

Today only about 25% of our patient volume relates to value-based programs. While this is a step forward for Rutland it is not enough to focus solely on value-based transformation. A focus on the care practices that support fee for service payment methodologies is still required and drives the most significant part of our budget. We do not expect to ever get to full value-based payments but to be truly transformational we will need to achieve significantly more attribution to transition from fee for service to value.

b. Assuming Medicare and Vermont commercial payers offered a true actuarially sound population based fixed payment tomorrow, over what time horizon would you estimate you could reach your local tipping point? How long would it take your hospital to move operationally to a mostly fixed budget through participation in all-payer fixed payment programs)?

As RRMC participates in all programs the limiting factor in our "tipping point" is the participation of private practice physician practices. Hospitals do not drive attribution, primary care does. Currently we only have one Federally Qualified Healthcare provider participating, without more participation from primary care physicians we will not be able to move further toward value-based care.

c. What would the Medicare and Commercial fixed payment programs need to look like to facilitate your participation?

RRMC will be participating in all OneCare offered payment programs.

6. What is the value of your maximum risk liability by payer for CY 2022?

RRMC has not assumed any risk or reward in any of the OneCare programs for 2022.

7. A risk reserve table will be distributed to the hospitals in late summer/early fall.

CAPITAL INVESTMENT CYCLE

1. In accordance with 18 V.S.A. § 9435(f), describe the investment cycle and how it relates to the hospital's overall strategic plan. Discuss how the hospital's capital investment cycle has changed as a result of COVID-19. Please mention certain items and the resulting status as a result of COVID-19 (i.e., cancelled, postponed, rescheduled, etc.)

The Capital Budget process includes a six step process (1) department directors prepare capital project requests for approval by their vice president; (2) the Capital Asset Prioritization Committee reviews and prioritizes capital requests and makes a recommendation to Leadership Council for review; (3) Leadership Council reviews the capital budget recommendations; (4) pursuant to Article IV, section 4 of the RRMC Bylaws, the CEO finalizes the capital budget for submission to the RRMC Board for approval; (5) Pursuant to Article III, section 3.11-2 of the RRHS Bylaws, following the approval by the RRMC Board, the RRHS Board of Directors reviews and approves the capital budget for RRMC; and (6) pursuant to 18 VSA § 9375(b)(7) and GMCB Rule 3.203, the Hospital submits its budget, including three-year capital budget to the GMCB for review for the GMCB to establish the fiscal year budget.

Funding available for the capital budget is determined each year based on cash flow availability and projections on operating margins. Based on the 2022 cash flow and operating margin projections $12,593,000 has been allocated for capital spending. Spending at this level is equivalent to our annual depreciation. Due to limited operational performance the targeted funding level has been reduced from 1.2 times depreciation ($15.1 million) to the annual depreciation. Lowering the funding target afforded $350,000 of depreciation savings.

2. If any of the hospital's anticipated capital investments are required improvements (e.g., regulatory or accreditation requirements), please identify and explain.

All the planned capital relates to routine replacement for building infrastructure, grounds, and equipment.

APPENDIX I

APPENDIX II