Fiscal 2023 GMCB Financial Narrative
Rutland Regional Medical Center

A. EXECUTIVE SUMMARY

Provide a summary of the hospital's FY23 budget submission, including any information the GMCB should know about programmatic changes, such as staffing, specific service lines, operational changes, any further impacts of COVID-19, and engagement in sustainability planning at the hospital. Specifically pertaining to sustainability planning, please describe how the hospital is preparing to engage in sustainability planning with the Green Mountain Care Board.

The primary objective of Rutland Regional Medical Center's 2023 budget is to maintain access to essential healthcare services in our community and State.

There are no new service offerings. No material increases in staff. And no new programs.

The COVID-19 pandemic has fundamentally impacted the US healthcare system, and Rutland Regional is no exception. As we begin to emerge from the COVID pandemic, ***Rutland Regional is facing unprecedented inflationary cost pressures*** *– most acutely in labor costs, pharmaceuticals, medical supplies, fuel and food costs.* ***In total, inflation accounts for $20.3M in our FY 2023 budget.***

Over the past five years, Rutland Regional has taken significant steps to control costs wherever possible. The economic reality we are facing this current year is that inflation has far outstripped these efforts and we are projecting a $12 million operating loss. Combined with a loss of $13 million in non-operating revenue, primarily due to market losses on investments, Rutland Regional is facing a total loss of $25 million in FY 2022. This serious and troubling 8% negative margin has resulted in Rutland Regional violating our debt service coverage ratio standard required under our debt covenants.

If Rutland Regional is not able to achieve increases in payment rates to cover the extraordinary inflationary costs we are bearing, we will be forced to curtail services.

Rutland Regional played a critical role in ensuring access to care throughout the past 30-month COVID pandemic. We all hope that the pandemic is waning, but no one is certain. We have evaluated the services we are currently providing and have found none that are not critical to the health of our community.

This budget we are submitting provides financial stability and ensures access to critical health care services for Rutland County and beyond. Rutland Regional has historically worked transparently and in a spirit of collaboration and good faith with the Green Mountain Care Board and other state and federal legislative and regulatory agencies to support State health policy and reform initiatives and to provide access to high quality and efficient health care services to Vermonters. We will continue to do so in participating in sustainability planning initiatives in the future.

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RRMC's 2023 budget includes revenue and utilization assumptions that model current year trends and performance. We expect that we will continue to care for patients who have COVID but have considered this care to be in the normal course of business. Other than the transition of Anesthesia from a contracted service to an employed service we have not included any change in service offerings or access to care. We based our net revenue on proposed State and Federal regulations, our current contractual obligations with commercial payers and full participation in OneCare risk programs. We have not included any risk settlement in our 2023 budget, yet the maximum risk we could face could surpass $7 million dollars.

The 2023 Budget assumes inflationary assumptions across the organization that result in significant non-discretionary cost increases. These inflationary impacts began at the start of fiscal year 2022 and have been unfunded in our revenue and reimbursement plan this year. In 2023 these costs must be fully realized and funded. These inflationary costs account for more than $20.3 million in 2023. While we must consider the increased costs in our budget, we have been diligent in improving productivity measures. In fact, we have improved productivity by 17% when compared to measures before COVID using our 2019 as a basis to set productivity targets.

The net result of our utilization and net revenue assumptions coupled with the inflationary pressures across the organization require us to raise our rates to achieve a reasonable but necessary operating margin. We are projecting an operating loss of $12.2 million in 2022 which is driving a dramatic fall in our days of cash and has resulted in non-compliance with our debt covenants. We must stabilize our operating performance and to do so we must transition back to budgets that support modest operating margins. Over the past two years we have limited investments in capital which is driving our age of plant up, a practice that cannot continue. The 2023 Budget supports a 2.7% margin and will require an overall rate increase of 17.8%. While we will raise rates across the organization, it is primarily our commercial payers that will be subjected to the rates. In fact, based on our most recently filed Cost Report, the Medicare and Medicaid program payments fell short of the cost of care by $53 million.

The Rutland Regional Board of Directors includes the heads of several businesses that struggle to provide health insurance for their employees. They clearly understand the impact of rate increases, however, they voted unanimously to approve this budget because they recognize that the system will incur even greater costs if we are not able to cover inflation and are forced to reduce access to critical healthcare services. The pandemic has demonstrated this very clearly: reduced access to care in 2020 is resulting in more patient morbidity and mortality and higher costs in 2022. We feel that this budget reflects the appropriate balance of services and costs. We do however support continued collaborative efforts to allow our State to consider alternative payment

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B. YEAR-OVER-YEAR CHANGES

Explain each component of the budgeted FY23 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.

i. 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 FY23 NPR/FPP change over the approved FY22 budget, referencing relevant FY23 budget-to-projection variances.

Table 1: NPR Variance - FY 2022 Approved Budget to FY 2023 Proposed Budget

NPR	Total	Total Medicare	Total Medicaid	Total Commercial	Total Self-Pay/Other	DSH
FY 2022 Approved Budget	$ 270,361,371	$ 110,477,023.00	$ 30,668,048.00	$ 125,149,452.00	$ 631,331.00	$ 3,435,517.00
Rate Effect	$ 22,673,757			$ 21,778,323.17	$ 895,434.17	
Disproportionate Share Payments (DSH)	$ (93,375)					$ (93,375.00)
Utilization (not factoring in change in charge request)	$ 28,229,749	$ (578,423.00)	$ 7,139,208.00	$ 20,710,826.83	$ 958,136.98	
Fixed Prospective Payments	$ (141,188)		$ (141,188.00)			
Provider Acquisitions/Transfers	$ -					
Changes in Accounting	$ -					
Reimbursement/Payer Mix	$ (6,016,186)	$ (4,231,526.00)	$ (1,647,515.00)	$ 1,564,218.89	$ (1,701,363.55)	
Bad Debt/Free Care	$ (1,749,191)				$ (1,749,191.00)	
Psych ICU and ADAP	$ 705,400				$ 705,400.00	
Other (specify)	$ -					
Other (specify)	$ -					
FY 2023 Proposed Budget	$ 313,970,337	$ 105,667,074	$ 36,018,553	$ 169,202,821	$ (260,252)	$ 3,342,142
$ Change from FY 2022 Approved Budget	$ 43,608,966	$ (4,809,949)	$ 5,350,505	$ 44,053,369	$ (891,583)	$ (93,375)
% Change from FY 2022 Approved Budget	16%	-4%	17%	35%	-141%	-3%

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

Our payer mix has stayed relatively consistent year over year. We are anticipating an inflationary market basked update from Medicare of approximately 3%. This is offset by in reinstitution of 2% sequestration.

Traditional Medicaid is providing no inflationary increase as of the date of this budget submission.

Commercial contracts are budgeted based on current contracts and any known payment program changes. The 17.8% rate increase nets approximately $22.1 million across commercial payers.

Our Fiscal 2023 budget assumes full participation in OneCare Vermont. Included in this is an anticipated shortfall in the Medicaid program of $1.0 million.

ii. Also include any significant changes to revenue assumptions from FY22 (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).
   a. 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.

ii. NPR/FPP: Utilization

a. Describe any significant variances from the FY22 budget and projection (including changes in reimbursements and utilization).

NPR is expected to be $29.2 million more than budgeted. This increase is related to increased volume associated with outpatient services. 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.

Budget to budget we are estimating a revenue increase of $52.5 million related to increased volume. The strong outpatient service volume that we are experiencing in Fiscal 2022 is expected to continue into Fiscal 2023. In Fiscal 2022, RRMC began billing for Anesthesiology professional services previously a contracted services (see section iv below). This new volume is anticipated to generate an additional $4.3 million in gross revenue.

Appendix 3

Modify

Utilization

The Utilization table is a subset of the Appendix 1. Reconciliation "Utilization" category and is meant to capture the utilization component in NPR outlined in Appendix 2. Charge and NPR Detail. The purpose of the Utilization table is to identify major categories of services that are changing. Using Gross Revenues as a measure of estimated growth, identify the major categories of services that are changing without the request Rate change.

Category of Service	Total increase in Gross Revenues (%)	Total increase in Gross Revenues ($)
FY 2022 Approved Budget	100%	$639,838,633
Pharmaceutical Volume	3.37%	$21,539,575
Physician volume (chg in FTEs)	-0.46%	-$2,922,601
Provider Transfer - Anesthesiology	0.67%	$4,300,919
Laboratory	1.13%	$7,245,655
Diagnostic Imaging (CT, MRI, General)	1.87%	$11,957,808
Cardo Pulm, Emergency Svcs. Misc	1.63%	$10,449,926
FY 2023 Proposed Budget	108.22%	$692,409,915
$ Change from FY 2022 Approved budget		**$52,571,282**
% Change from FY 2022 Approved budget	**8.22%**	

iii. 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.

RRMC has requested a 17.8% charge request. Our charge request will be imposed across the organization. Supply and pharmaceutical increases are based on tiered markup schedules that reflect current acquisition costs. The overall increase for supplies and pharmaceuticals is 11.9% and 11.4% respectively. All remaining charges will be assessed a 19.2% increase.

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 (specifically, inpatient, outpatient, professional services, etc.) in gross revenues, NPR and FPP by payer. Explain the underlying assumptions and methodology used to make that allocation.

Table 1: NPR Variance - FY 2022 Approved Budget to FY 2023 Proposed Budget

NPR	Total	Total Medicare	Total Medicaid	Total Commercial	Total Self-Pay/Other	DSH
FY 2022 Approved Budget	$ 270,361,371	$ 110,477,023.00	$ 30,668,048.00	$ 125,149,452.00	$ 631,331.00	$ 3,435,517.00
Rate Effect	$ 22,673,757			$ 21,778,323.17	$ 895,434.17	
Disproportionate Share Payments (DSH)	$ (93,375)					$ (93,375.00)
Utilization (not factoring in change in charge request)	$ 28,229,749	$ (578,423.00)	$ 7,139,208.00	$ 20,710,826.83	$ 958,136.98	
Fixed Prospective Payments	$ (141,188)		$ (141,188.00)			
Provider Acquisitions/Transfers	$ -					
Changes in Accounting	$ -					
Reimbursement/Payer Mix	$ (6,016,186)	$ (4,231,526.00)	$ (1,647,515.00)	$ 1,564,218.89	$ (1,701,363.55)	
Bad Debt/Free Care	$ (1,749,191)				$ (1,749,191.00)	
Psych ICU and ADAP	$ 705,400				$ 705,400.00	
Other (specify)	$ -					
Other (specify)	$ -					
FY 2023 Proposed Budget	$ 313,970,337	$ 105,667,074	$ 36,018,553	$ 169,202,821	$ (260,252)	$ 3,342,142
$ Change from FY 2022 Approved Budget	$ 43,608,966	$ (4,809,949)	$ 5,350,505	$ 44,053,369	$ (891,583)	$ (93,375)
% Change from FY 2022 Approved Budget	16%	-4%	17%	35%	-141%	-3%

Table 3: NPR Variance - FY 2022 Projection to FY 2023 Proposed Budget

Projection derived as of:

NPR	Total	Total Medicare	Total Medicaid	Total Commercial	Total Self-Pay/Other	DSH
FY 2022 Projection	$ 299,635,530	$ 108,099,245.19	$ 38,378,533.56	$ 150,702,568.97	$ (905,708.11)	$ 3,360,890.00
Rate Effect	$ 22,673,757			$ 21,778,323.17	$ 895,434.17	
Disproportionate Share Payments (DSH)	$ (18,748)					$ (18,748.00)
Utilization (not factoring in change in charge request)	$ (2,336,745)	$ (736,515.76)	$ (104,297.14)	$ (1,409,285.75)	$ (86,645.96)	
Fixed Prospective Payments	$ (1,557,599)		$ (1,537,036.58)	$ (20,562.18)		
Provider Acquisitions/Transfers	$ -					
Changes in Accounting	$ -					
Reimbursement/Payer Mix	$ (4,208,452)	$ (1,695,655.18)	$ (718,647.37)	$ (1,848,223.75)	$ 54,074.00	
Bad Debt/Free Care	$ (217,406)				$ (217,405.91)	
Other (specify)	$ -					
Other (specify)	$ -					
Other (specify)	$ -					
FY 2023 Proposed Budget	$ 313,970,337	$ 105,667,074	$ 36,018,552	$ 169,202,820	$ (260,252)	$ 3,342,142
$ Change from FY 2022 Projection	$ 14,334,808	$ (2,432,171)	$ (2,359,981)	$ 18,500,251	$ 645,456	$ (18,748)
% Change from FY 2022 Projection	5%	-2%	-6%	12%	-71%	-1%

There is no differentiation between inpatient, outpatient and professional services, all non-pharmaceutical/supply charges will be assessed a rate increase of 19.2%.

Our reimbursement assumptions are based on payer mix that mimics the current year utilization trends. We have not assumed any further migration of patients from one payer to another. We base our reimbursement on the underlying payment rules for each payer and project net revenue according to payment methodology and annual reimbursement assumptions.

c. Please indicate the dollar value of 1% NPR/FPP FY23 in Table 3 of Appendix 2 of **Part B** below, overall change in charge.

The dollar value of 1% of revenue is $1,277,000.

d. Please provide the following updates from the hospital's GMCB approved change-in-charge for FY22:

i. Did the hospital receive the full amount of its approved FY22 rate increase from the commercial payers?

Yes

ii. Did the hospital increase its charges to the full approved amount for FY22, if not, why not and by how much did the hospital increase those rates?

Yes

iii. How did the resulting increase impact areas of service (specifically, inpatient, outpatient, professional services, etc.).

Our Fiscal 2022 budget included an overall rate increase of 3.64% which was estimated to provide $22.4 million of gross revenue and $4.5 million net. More than half of this increase was centered around outpatient services.

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%

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

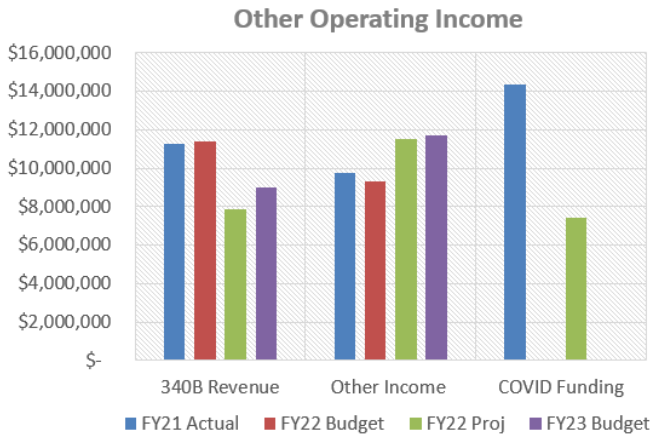
In May RRMC submitted the "Notice of Provider Practice Transfer/Acquisition" to notify the GMCB of a transfer in anesthesia services effective July 1, 2022. Currently professional Anesthesiology services are contracted by Envision Health. Beginning on June 30, 2022, RRMCs agreement with Envision Health will end and RRMC will employ all Anesthesiology providers. The net impact of this transition is positive and improves net income generated from anesthesia by nearly $1.0 million.

v. Other Operating and Non-Operating Revenue

a. Explain the budgeted FY23 other operating revenue and non-operating revenue changes over the approved FY22 budget, as well as relevant FY22 budget-to-projection variances.

Numerous drug manufacturers have begun to exempt contract pharmacies from participating in the program for certain drugs. In Fiscal 2022, we are projecting to lose more than $2.5 million from this program. In Fiscal 2023, RRMC plans to participate in 340B information sharing with drug manufacturers there by mitigating 80% of future 340B loses.

In Fiscal 2022, we saw a significant increase in our Molecular Lab client revenue as well as our Retail Pharmacy. Combined these revenue sources are projected to drive a $2.0 million positive revenue variance. We are anticipating this revenue to continue into Fiscal 2023.



We have not budgeted any income or loss in investments and non-operating income. Our current position in investment performance is a loss of $10.5 million which is equivalent to a 11.5% loss. The market volatility is difficult to estimate, if we can get back to breakeven that is likely the best-case scenario.

b. Please denote the COVID-19 advances, relief funds, and other grants received in Appendix 6 of **Part B** below, and the respective treatment of each funding source as of September 30, 2021, projected as of September 30, 2022, and budgeted as of September 30, 2023.

Fiscal Year 2020 and 2021 - Phase 1&2 HRSA Provider Relief and American Rescue Funds – We are still awaiting acceptance and approval of our proposed "alternate revenue calculation" that will serve as the final substantiation of the $19.6 million in funds that we received in 2020. All reporting requirements have been met and a Single Source Federal Grant audit was completed that demonstrated full compliance with the Federal Grant requirements.

FEMA – To date, we have received $1.5 million from FEMA.

Fiscal Year 2022 - Phase 4 HRSA Provider Relief and American Rescue Plan Funds – We have received $6.6 million associated with the Phase 4 of the American Rescue Plan (ARP) funding program. HRSA has not provided guidance on the justification method for these funds. We posted all funds to the Income Statement and have based our eligibility on rules consistent with Phase 1 and 2 grant awards.

Fiscal Year 2023 – Nothing anticipated or budgeted

Appendix 7

COVID-19 Advances, Relief Funds, and Other Grants

Please denote the relief funding sources of amounts 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, 2021, September 30, 2022, and September 30, 2023.

Description	Amounts Received	Amounts Received	Recognized in Revenues	Recorded as a Liability	Amounts Received	Recognized in Revenues	Recorded as a Liability	Recognized in Revenues	Recorded as a Liability
	Grand Total	As of Sept. 30, 2021			As of Sept. 30, 2022			As of Sept. 30, 2023	
CARES Act Funding (see note below)	$ 6,646,588	$ -	$ 14,304,723	$ -	$ 6,646,588	$ 6,646,588	$ -	$ -	$ -
Medicare Advance - Repayment	$ -	$ -	$ -	$ 20,310,538	$ -	$ -	$ -	$ -	$ -
FEMA	$ 727,276	$ -	$ (7,986)	$ -	$ 727,276	$ 727,276	$ -	$ -	$ -
VT Hazard Pay Grant	$ -	$ -	$ 1,200	$ -	$ -	$ -	$ -	$ -	$ -
VAHHS Grant	$ -	$ -	$ 42,992	$ -	$ -	$ -	$ -	$ -	$ -
State of Vermont	$ 5,940	$ -	$ 1,155	$ -	$ 5,940	$ 5,940	$ -	$ -	$ -
COVID Curbside Medication Delivery	$ 2,145	$ -	$ -	$ -	$ 2,145	$ 2,145	$ -	$ -	$ -
CIC Health	$ 61,495	$ -	$ -	$ -	$ 61,495	$ 61,495	$ -	$ -	$ -
ADAP	$ -	$ -	$ 2,640	$ -	$ -	$ -	$ -	$ -	$ -
								$ -	$ -
Totals	$ 7,443,444	$ -	$ 14,350,334	$ 20,310,538	$ 7,443,444	$ 7,443,444	$ -	$ -	$ -

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.

RRMC does not expect any additional Provider Relief Funds (PRF) in 2023. All funding to date has posted to revenue.

In addition to the PRF funding there was also funding available through FEMA. FEMA extended the COVID incident period to July 1, 2022 and will allow 100% Federal cost reimbursement for eligible COVID costs. We are investigating the opportunity to submit a third application and are in the process of determining the full amount of the request. Each of the first two applications provided approximately $750,000 of funding and we would expect that if approved the third request would support a similar award.

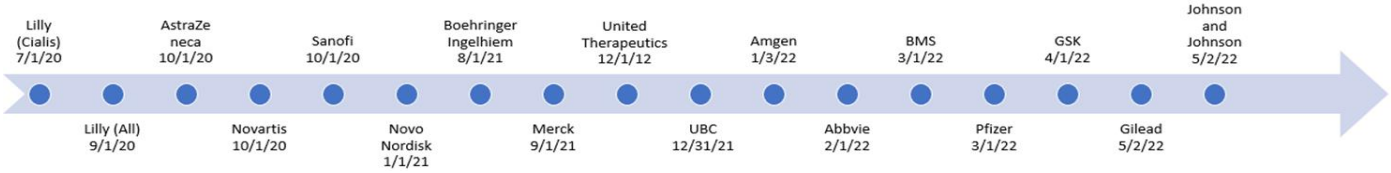
d. Explain the relative stability of significant sources of other operating revenue and non-operating revenue and discuss strategies to address revenue streams the hospital considers unpredictable or unstable.

The primary source of other operating revenue is generated from the 340B pharmacy program. This program is at significant risk given the recent movement by manufacturers to exempt certain contract pharmacies from the program if additional reporting requirements are not met. Currently there are 17 manufacturers who have imposed eligibility restrictions on contract pharmacy. The overall impact of this eligibility restriction to RRMC is over $8 million each year.

As depicted below, the first manufacturer restriction began in July 2020, however adoption was slow to start and initially had minimal impact the first two years. It was not until 2022, when more manufactures began using the exclusionary practices, that the impact began to materialize.

The pharmaceutical manufacturers have agreed to reinstate 340B pricing in exchange for extensive reporting of claims data, which RRMC has elected to do in June, 2022. We estimate that submitting this data will reinstate about 80% of the realized 340B income loss in the 2023 budget. Given the timelines of manufacturer restrictions and RRMC's decision to report data, the loss expected in 2022 and 2023 is $2.5 million and $2.0 million, respectively.

While we may have mitigated the significant loss of revenue from the program in 2023, RRMC expects that similar programmatic changes and tactics will persist and therefore the program will continue to be at risk unless action at the Federal level is taken.



vi. Operating Expenses

a. Explain changes in budgeted FY23 operating expenses over the approved FY22 budget.

Table 2: FY 2022 Approved Expenses to FY 2023 Proposed Budget

Expenses	Amount	% over/under
FY 2022 Approved Budget	$ 290,985,740	
New Positions	840,000	0.3%
Inflation Increases (from Appendix 4. Inflation Price Effect Only)	20,181,344	6.9%
Physician Incentives (wRVU's, call coverage, etc.)	803,133	0.3%
Salaries		0.0%
Fringe	-	0.0%
Travelers (nurses)	4,109,176	1.4%
Locum tenans (MDs)	(2,219,511)	-0.8%
Drugs	3,164,914	1.1%
Health Care Provider Tax	2,773,703	1.0%
Cost Savings	(250,000)	-0.1%
Supplies	2,133,053	0.7%
Med Surge Supplies related to Volume	46,996	0.0%
Physician Transfer	2,807,164	1.0%
Equipment / Software / Other Maintenance	548,803	0.2%
ACO Fees	865,004	0.3%
Other (specify, add additional rows as necessary)	(727,047)	-0.2%
FY 2023 Proposed Budget	$ 326,062,472	12.1%
$ Change from FY 2022 Approved Budget	$ 35,076,732	
% Change from FY 2022 Approved Budget	12%	

In total our expenses increased $35.0 million or 12%. We continue to struggle with the inflationary pressures on pharmaceuticals as well as medical supplies and salaries. Combined, these resulted in $20 million or 6.9% year over year increase. We continue to have a significant reliance on temporary staff. Our Fiscal 2023 budget supports a total of 50 temporary staff FTEs. This resulted in an additional $4.1 million in additional expense.

b. Describe any significant variances between your FY23 budget and FY22 projections (e.g., variances in costs of labor, supplies, utilization, capital projects) and how those variances affected the hospital's FY23 budget.

Table 4: FY 2022 Projected Expenses to FY 2023 Proposed Budget

Expenses	Amount	% over/under
FY 2022 Projection	$ 338,735,708	
New Positions	2,700,000	0.9%
Inflation Increases	3,641,736	1.3%
Salaries	(15,074,790)	-5.2%
Fringe	2,599,559	0.9%
Travelers (nurses)	(8,199,000)	-2.8%
Locum tenans (MDs)	(2,443,875)	-0.8%
Drugs	1,729,228	0.6%
Health Care Provider Tax	860,088	0.3%
Depreciation	615,008	0.2%
Cost Savings		0.0%
Physician Transfer	2,105,373	0.7%
Equipment / Software / Other Maintenance	769,906	0.3%
COVID Expenses	(1,687,365)	-0.6%
ACO Fees	123,612	0.0%
Other (specify, add additional rows as necessary)	(412,716)	-0.1%
FY 2023 Proposed Budget	$ 326,062,472	-4.4%
$ Change from FY 2022 Projection	$ (12,673,236)	
% Change from FY 2022 Projection	-4%	

Our cost structure decreased $12.6 million or 4% when comparted to Fiscal 2022 projection. As noted above, a reduction in salary expense accounts for most of this decrease. This decrease is a combination of a retention bonus and premium pay programs the organization created to address staffing issues. Both programs will end in Fiscal 2022.

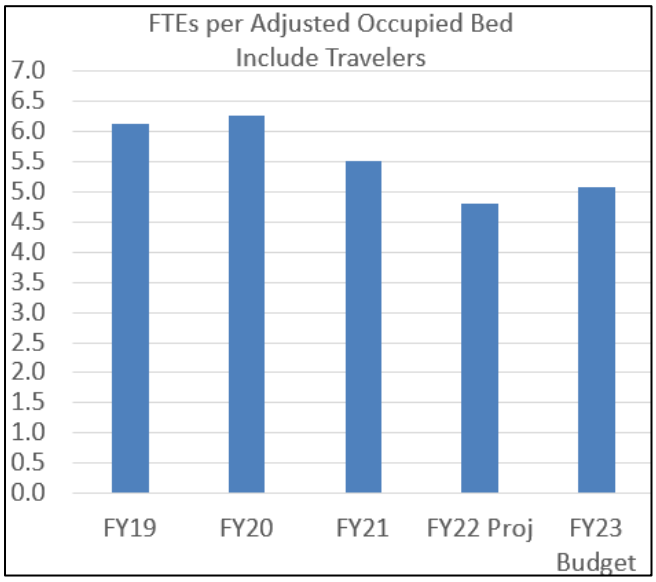
c. Referencing the information and data submitted in Appendices 1 and 4 of **Part B** below and relevant portions of the FY23 budget submission, please discuss the categories of inflation and their relevance to the hospital's budget and operations.

See section vi above

d. Describe any cost saving initiatives proposed in FY23 and their impact on the budget.

RRMC's cost savings initiatives were focused on transitioning staffing back to pre-covid levels. To set our 2023 budget RRMC targeted our 2019 productivity metrics. We have been successful and achieved the targeted levels that resulted in a 17% improvement when compared to 2019 levels.

In addition to the focus of staffing RRMC restricted discretionary spending when appropriate. Funding to support employee travel and education, meeting and special event spending and specialized consulting and were all limited. Additionally, RRMC continues to participate in savings opportunities captured through our Group Purchasing contracts. Together these cost savings initiatives support $450,000 in savings.



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

The inflation that has been included in the budget accounts for the full amount of the requested rate increase. We have included $20.3 million of inflationary costs that support workforce, energy, pharmaceutical and supply chain inflation. Based on a net revenue gain of $1.2 million per percentage of rate increase our rate increase just to cover inflation would have been 19.2%. We were able offset the inflationary costs with productivity improvements and discretionary spending limits which resulted in lowering the rate increase to 17.8%.

vii. Operating Margin and Total Margin

a. Discuss the hospital's assumptions in establishing its FY23 operating and total margins. Explain how the hospital's FY23 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 FY22 budget-to-projection variances.

The 2022 budgeted margin was set at breakeven, therefore there was no surplus in the budget to support the inflationary costs increases that began impacting healthcare organizations last fall. In the original 2022 Budget we estimated the inflation impact to be $7.3 million. Today, that number has been updated to reflect more than $23 million of inflationary costs in 2022 alone. The inflationary impacts without any mid-year adjustments have caused significant losses in our 2022 operating margin: we now project we will sustain a $12.2 million operating loss, before considering the loss in the investment market.

In the four years before 2022, RRMC only generated a cumulative operating margin of $5.5 million, or on average $1.4 million per year. To mitigate the impact of breakeven performance on cash, we made strategic decisions to limit spending in capital. The result of this strategic decision is demonstrated in our "age of plant" metric which continues to increase. Even with cash flow mitigation tactics we have seen a significant decline in cash. We started the year with 280 days of cash and are expected to end the year with 204 days of cash. In 2022 RRMC will deplete its cash by 27%.

As of May 2022, we breached the debt service coverage covenant that we are obligated to maintain as part of loan agreements with TD Bank and the USDA Rural Development program. We are currently working in partnership with both partners to determine a resolution and forbearance plan. Our ability to agree to a reasonable resolution will in part be supported by our 2023 Budget plan and our ability to mitigate further cash declines.

The aggregated losses over the past five years cannot continue. In response, the 2023 budget has been developed with a targeted operating margin at 2.75%. This margin supports our cash management strategies to fund capital, manage debt service and complete our pension annuitization strategy. The cash flow analysis depicts the uses of the margin and demonstrates that a 2.75% margin is reasonable and is developed to support current liabilities and obligations - but not grow cash.

Non-operating (investment) performance has supported RRMC in the absence of operating margins and served to mitigate our rate requests. The subsidization of operating performance with investment performance is not sustainable and not achievable given current market performance. Our 2023 Budget does not rely on investments to fund operations.

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. If so, please provide the name of the subsidiary, the budgeted amount of the subsidy that will be required as part of the hospital's budget request and the financial impact of that subsidy on the subsidiary.

   No, all support stays with RRMC.

C. EQUITY

i. What is your hospital doing to recognize and correct inequities in your community, and prepare for the development of health equity measures?
RAND defines a health equity measurement approach as "an approach to illustrating or summarizing the extent to which the quality of health care provided by an organization contributes to reducing disparities in health and health care at the population level for those

patients with greater social risk factor burden by improving the care and health of those patients."

In 2019, Rutland Regional Medical Center established a Diversity Equity and Inclusion steering committee that focuses twin goals:

1. creating an organization that excels at recruiting and retaining staff who identify as members of marginalized communities
2. creating a system of care that actively resists cultural biases to provide care that both respects the identities of those seeking care and is clinically equitable for marginalized and non-marginalized communities

Internal Work

Rutland Regional recognizes its role in ensuring diversity, equity, and inclusion both as an employer and a health care provider and has taken steps to address these goals including:

- Diversity, Equity, Inclusion education for all staff, including physicians.
- Evaluation of registration process to ensure appropriate language and tools to capture racial and gender identity. For example, ensuring that gender identity is captured and respected during registration and this information is passed along to staff treating patients.
- Providers, RNs, and clinical staff in the Emergency Department have received training around substance use disorder and all providers have had formalized Medication Assisted Treatment training and engage with community partners (West Ridge, BPA, and Turning Point) to support events like Thursday Lunch and 'Stomp out Stigma' and to develop clinical pathways for our patients once they leave the ED and hospital.
- Assessment of staff demographics compared against state averages. (Rutland Regional's staffing is more diverse than Vermont overall.)

Future work in this area is expected to include:

- Enhanced internal data collection to assess whether members of marginalized communities receive differences in clinical care. (This includes CMS' proposed rulemaking for 2023 that includes reporting on 5 measures of social determinants of health: food insecurity, housing instability, transportation needs, utility difficulties, and interpersonal safety).
- Additional, ongoing DEI education both general in nature as well as population and/or situation specific education.
- Assessment of patient satisfaction survey to determine if they adequately capture experiences of marginalized communities.
- Assessment of job postings and other public facing communications for hidden bias.
- Work with the Vermont Department of Health to provide JEDI training to staff.

- Participating in the American Hospital Association's Health Equity Roadmap organizational assessment and improvement processes.

Although Rutland Regional is a community-focused organization, our primary mission is focused on secondary care, such as visits to specialist physicians, surgical intervention, etc. As such, to address health inequities in the community at large, we partner with community organizations that are directly involved in providing such services: the Community Health Federally Qualified Health Center, VNA and Hospice of the Southwest Region, Community Care Network/Rutland Mental Health (the designated mental health agency for Rutland County), as well as other, smaller organizations.

Earlier in 2022, we began to investigate creating a clinically integrated network entity comprising our hospital and the three organizations mentioned above. This alliance would position us collectively for success in value-based care delivery by allowing us to facilitate data sharing, improve care coordination, support collaborative grant applications, and share other clinical resources to improve our outcomes in population health management.

Community Support and Engagement

Outside of the direct work through our clinical partnerships, Rutland Regional's Bowse Health Trust (BHT) provides -approximately $300,000 annually in grant funding to community organizations directly aimed at improving the health and wellness of Rutland County residents.

Many of the past and presently funded programs address priority areas within vulnerable populations, like those with substance use disorder, mental health issues, or people with limited access to resources. In 2021, the BHT Committee made health equity and diversity, equity, and inclusion (DEI) foundational criteria for BHT grant funding.

The hospital's Community Health Needs Assessment provides the Bowse Health Trust with the data needed to establish its funding priorities. The most recent assessment and implementation report, released in 2021, calls on our community to intentionally address health equity within each of our priority areas.

This connection has enabled BHT to encourage local agencies seeking funding to explore and adopt DEI work and principles within their agencies. The DEI requirement was also adopted by the United Way of Rutland County and is now part of their funding process as well.

D. WAIT TIMES

The Board staff and up to two Board members will establish a working group to include hospitals, Vermont Association of Hospitals and Health Systems, the Vermont Department of Financial Regulation, the Office of the Health Care Advocate, and other interested parties to determine by May 2, 2022, appropriate wait time metrics that hospitals shall submit as part of the FY23 budget process. If the workgroup is unable to determine appropriate metrics, the hospitals shall report the following for each hospital owned practice (for each primary care and specialty care), as well as the top five most frequent imaging procedures. Specifically, please report for each practice and imaging procedure:

i. Referral lag, the percentage of appointments scheduled within 2 days of referral.

Information to be provided by August 5th, as required

ii. Visit lag, the percentage of new patients seen within 2 weeks, 1 month, 3 months, and 6 months of their scheduling date.

Information to be provided by August 5th, as required

In each case, hospitals shall outline steps to resolve wait times.

D. RISK AND OPPORTUNITIES

i. Please discuss the hospital's risks and opportunities in FY23. Recognizing the risks and opportunities in the current environment, please explain how the FY23 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:

1. RRMC participation in the OneCare Risk programs. Based on the current risk thresholds and 26,000 attributed lives, our total risk could be as much as $7 million. We have not included any reserve for this risk in our budget. Additionally, the financial details of the program that will begin in 2023 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.

2. Workforce: We currently have over 160 open positions and are still heavily reliant on temporary staff. Included in the 2023 budget is $10.4 million to support 50 travelers and $3.5 million to support retention and recruitment efforts in 2023. This funding supports organizational-wide base rate increases, RN/LNA tuition support, and student loan forgiveness, along with other recruitment, training, and staff development initiatives. The continued projected shortfalls in the labor market -- particularly in nursing -- continue to challenge hospital operations and could prolong inflationary costs.

3. 340B Program: The 340B drug pricing program has been under attack by drug manufacturers to limit the eligibility in the program. Currently, seventeen manufacturers are imposing data requirements in order for hospitals to continue to be eligible for the program. The loss of the 340B program will take $8 to $10 million from RRMC. This is not a risk just to RRMC but across the State for every hospital that participates in the 340B program.

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.

Use of telehealth increased rapidly at first but is now back down near pre-pandemic levels. Uncertainty about long-term reimbursement for video visits, inadequate reimbursement for audio-only visits, variable state licensure rules when many of our patients come from out of state, lack patient of access to broadband, and lack of confidence with use of technology all remain barriers.

Lack of providers is the primary factor limiting access to outpatient care. Deferred care during the pandemic is driving a compensatory increase in demand now, further worsening the situation.

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

As an outgrowth of our increased adoption of telehealth services, our emergency department leadership is working on a pilot program to access remote telehealth pediatric psychiatry care for patients in our ED awaiting inpatient bed placement. We have similarly instituted a telehealth program in neonatology with UVM.

Additionally, COVID-19 afforded RRMC the opportunity to visit discussions pertaining to Hospital at Home Care for those patients who require close monitoring, but do not necessarily require hospital level of care. This program aligns all community partners who are critical to supporting patients in their home environment and supports the use of telehealth.

iii. Please discuss the workforce challenges of the hospital as it relates to the following:

a. Vacancy rate by Primary Care MD, Specialty MD, RN, Nursing Support and All Other.

We currently have 10.5 physician vacancies. This is equivalent to a 14.5% vacancy rate.

Nursing Support – LNA 7.9%
RN – 11.3%
Advanced Practice Providers – 7.0%
Organizational Wide – 6.5%

b. Provide your average turnover rates by Primary Care MD, Specialty MD, RN, Nursing Support and All Other for FY2018-FY2021.

	FY 2018	FY2019	FY2020	FY2021
Physician	16.80%	7.90%	2.35%	7.37%
Advance Practice Providers	20.80%	13.50%	13.95%	11.36%
RN's	16.40%	12.69%	14.22%	9.93%
LNA's	22.22%	19.84%	18.24%	29.74%
Organizational Wide	16.60%	15.13%	15.93%	15.14%

c. Report on initiatives and funding sources to reduce workforce pressures through recruitment and retainment.

RECRUITMENT

- Provide RN leaders as guest lecturers at senior nursing classes to build RRMC nursing brand
- Collaborate with the Vermont State University System to scale up nursing program graduates through Dedicated Education Unit implementation (from 8 students to 24 per cohort)
- Collaborate with VTC to bring cohort to Rutland area (9 seats in 2020) and scale up to double cohort size (20 seats in 2023)
- Utilizing international recruitment agencies to contract with international RN's
- Partnerships with Castleton University and VTC to fill our new graduate openings
- RN recruitment relationships with Norwich University, Colby Sawyer, and Adirondack Community College
- Grow our own accelerated on-site LNA Program to graduate up to 36 LNAs per year
- Provide ADN and BSN educational tuition support programs
- Implementing a RN employee referral program

RETENTION

- Magnet designation for culture of nursing excellence
- Nurse residency program to support transition to practice and reduce new graduate turnover
- ANCC Success Pays to support board certification as professional development for nurses
- Tuition support program for RNs to earn BSN degree

- Nursing Shared Governance Councils for shared decision-making model
- Clinical Ladder to promote achievement and advancement
- Preceptor differential to recognize contribution to nurse education
- Continuing education provider unit to offer free CEs to RNs as a benefit of employment

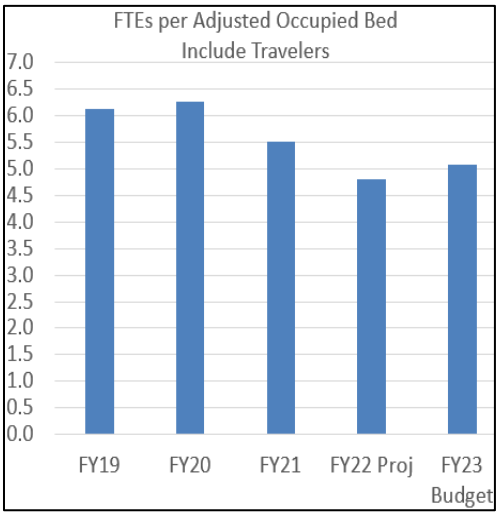
d. Please comment on and quantify the impact of nursing and MD travelers on your budget request.

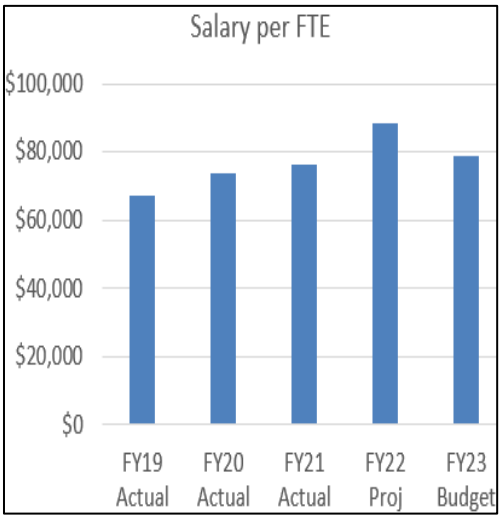
We have included 50 travelers in our 2023 budget. The total cost is $10.4 million.

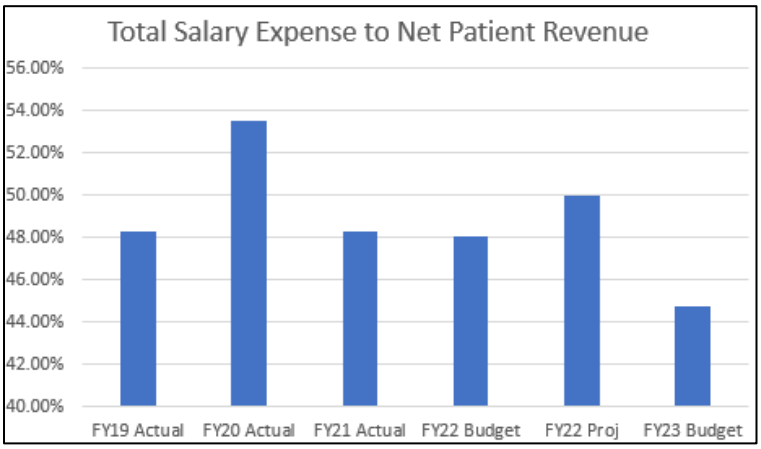
To account for physician vacancies, our Fiscal 2023 budget reflects additional shift or call coverage for various specialties. This additional coverage will be provided by employed physician rather than Locums providers.

e. Provide salaries per FTE, FTEs per adjusted occupied bed, and salaries expense to NPR

We have targeted Fiscal 2019 (pre-COVID) staffing levels to set our Fiscal 2023 budget. This has resulted in an improvement in productivity of 17% when compared to Fiscal 2019. While we are maintaining productivity below Fiscal 2019, inflationary impacts are driving up the cost per adjust discharge.







F. VALUE-BASED CARE PARTICIPATION

i. Referencing the data submitted in Appendix 5, if there are any value-based care programs that the hospital is **not** participating in for CY 2023, **please explain why and describe any barriers that exist.** What changes, if any, to each of these programs would need to be made in order to facilitate your participation?

RRMC participates in all OneCare risk programs offered. In total we expect to have 26,000 lives included in risk programs.

Assuming participation in one or more value-based care program(s) through OCV:

ii. Understanding that the pandemic has just started to recede, what changes in **each** of the hospital's cost centers that relate to value-based care initiatives (e.g. population health management, care coordination, chronic condition management, etc.) have been made as a result of participating in the ACO? Be specific in describing each cost center and how it has changed since joining the ACO. **Additionally, speak to how the fixed payments or other ACO payments from OCV are or are not advancing value-based care at your hospital.**

iii.

Fixed ACO payments during the decrease utilization period early in the pandemic were important in maintain our fiscal bottom line.

Through the ACO, the hospital is funding the Blueprint program and providing funds that have been redirected to Community Health to support their care management system(s). We have not any control over how those latter funds have been spent.

A potential loss of up to 7 million dollars through the ACO is unsustainable and may be too large a risk corridor for this community to manage given our small size.

a. As the pandemic recedes, what specific population health priorities are emerging for the hospital?

Patients with multiple high-cost chronic conditions remain the greatest opportunity to bend the cost curve through effective patient engagement and coordinated care management. Through the Rutland Health Alliance, we are working to strengthen our partnerships with Rutland Mental Health, the Community Health FQHC and the VNA and Hospice of the Southwest Region to increase alignment around these patient populations.

The current population health priorities have not changed from pre-pandemic but have become more pronounced and more costly for the hospital because of reduced access to care during the COVID-19 pandemic. The importance of screening for Social Determinants of Health and addressing positive screens at the primary care and community levels are imperative to decreasing the cost of care. It is those chronic conditions in combination with social determinants of health and lack of access to elective care services throughout much of calendar 2020 due to the pandemic which is now increasing emergency department utilization, inpatient length of stay, and non-acute hospital utilization (custodial care).

Hospital and primary care-based care management systems (inpatient case management, ED case management, transitional care nurses, and Community Health Team care managers) communicate and strategize with community partners to foster coordinated and patient-centric care management.

b. How will each of these priorities be conveyed to providers to in order to impact care delivery?

Two years ago, Rutland Regional partnered with the Community Health primary care group to develop a Director of Population Health position to coordinate care management initiatives in our community. There are additional avenues of communication through the Rutland Community Collaborative and Blueprint for Health staff.

c. How will success be measured for each of these initiatives?

The development of advanced analytics to support population health efforts has been a focus of our community over the past year. We now have reporting tools in place to track and manage emergency department and inpatient utilization and are regularly reviewing this information internally and with other community practices and agencies engaged in the OneCare Vermont ACO to direct care management priorities.

Where possible, we are also leveraging OneCare Vermont reports that are provided regularly that allow comparison of RRMC to other participating hospitals based on both financial and clinical / quality outcomes.

iv. As of CY2022, OCV is providing each HSA with quarterly quality reports. How are the results of these reports being communicated to providers in a way that will impact care delivery and quality outcomes?

RRMC's role in the HSA is to meet the acute inpatient, emergency and consultative needs of the community. We provide support (financial and technical) and regular communication to our primary care partners who, in turn, have the largest opportunity to impact care delivery changes and quality metrics. We meet regularly with those partners to review the quality measures and understand their plans to address.

v. Regarding the CY2020 settlement information for the hospital (Separate tables will be provided by GMCB), what are the planned investments of those dollars in furthering the hospital's health care reform goals? If no investments in health care reform were made with these dollars, how were they invested?

RRMC received $1.2 million in 2020 Medicaid risk settlements. Of the amount received RRMC invested $500,000 to directly fund a shared Rutland Community strategy to "Align the provision of healthcare services to meet the community health needs".

The four member organizations who participate in OneCare for the Rutland service area: RRMC, primary care, mental health, and home health have committed to work together to plan for the formation of a shared services or integrated health network. The intent of the formalized network is to respond to challenges that impede us from providing coordinated high quality and cost-effective care across care providers. In support of the alignment strategy, the member organizations are seeking consulting and legal services to design a best practice model that would allow the organizations to share services and patient data to support the transformation to an integrated health network. While the focus in on an integrated network, the assessment will ensure that integration objectives are consistent with each entities' mission, autonomy, and legal obligations.

vi. If the hospital experienced a net shared loss during this time period, how is the hospital using that information to inform change to the delivery system?

N/A

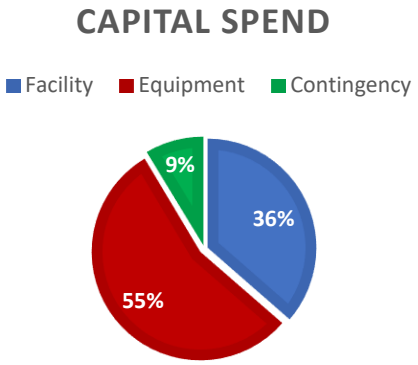
G. CAPITAL INVESTMENT CYCLE

i. 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 continued to evolve 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.)

RRMC has used Federal funding to address our facilities needs to safely care for patients with airborne illnesses such as COVID -19. In 2021 we moved our ICU unit to a negative pressure unit and added five other patient rooms with negative pressure capability. We also invested significantly in numerous social distancing and infection control measures. In 2021 we implemented an infection control software to allow our care givers better access to patient information to provide care.

In 2022 and 2023 our focus has been on transitioning the organization back to normal operations, while maintaining high quality standards and timely access to care. To support the transition, we have funded our capital investment plans by $12.5 each year. Our capital plans support a mix of facility and equipment investments that align with our strategies to provide timely high-quality care. We have prioritized projects that relate to regulatory compliance, support patient and staff safety and promote patient access. Some of the larger projects include:

Patient and Staff Safety (Cameras and Access Control) $1.2 million
Patient Access (Imaging) $3.1 million
Building Code Requirements (Ventilation and Infection Control) $2.3 million
Clinical Equipment Advancement (Quality Improvements) - $1.9 million
Information Technology- $900,000



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

Kitchen Hoods and HVAC Replacement – $500,000
This project is to address multiple deficiencies related to compliance with NFPA 96 and related to hood cleaning, access, materials, and fire protection systems.

OR/ACU Refurbishment - $1,800,000
This project is focused on the renewal of finishes and systems to ensure compliance with FGI Guidelines and CMS Environment of Care requirements, including infection control and safety criteria.

H. SUPPLEMENTAL DATA MONITORING

i. Market Share Report. This will be a snapshot which will show the change in market share for "key service lines" over the past 5 fiscal years as reported by the state's hospital discharge database, VUHDDS. Market share will be defined as the percentage of service line charges from local residents (within a hospital's service area) versus non-local residents (outside a hospital's service area). Market share will be disaggregated by primary payer. See Patient Origin dashboard/"Patient Origin by Hospital" tab for an example.

Information to be provided by August 5th as required

a. Does this report reflect material changes in your NPR actuals over this time period?

b. If not, how does the market share report distort or omit components of NPR?

ii. Reimbursement Analysis. This will outline patterns in the cost to deliver care for Vermont residents as reported to the state's all-payer claims database, VHCURES. Cost will be assigned at a claim level as specified in Medicare's cost reporting. Service lines will be reported by Medicare Diagnosis Related Group for inpatient services and by Ambulatory Payment Classifications for outpatient services. Note that only services with Medicare costs associated with them will be included in the report. (See links 1 and 2 for details about the methodology.) All results will be summarized in hospital-specific comparison tables broken down by primary payer group (Medicare, Medicaid, commercial). In addition, the report will highlight providers with exceptionally low or high costs, reimbursements, and/or proportion of costs covered.

a. For any service lines in which your hospital is highlighted, comment on any observations about this service line and how it may be reimbursed differently from other service lines you provide.

b. Are there any errors in the data as shown? Cite your own data where possible.

iii. Demographic Report. This report will summarize demographic data from the 2020 Census. Particular attention will be paid to CDC/ATSDR Social Vulnerability Index measures that relate to age and socioeconomic disadvantage.

Information to be provided by August 5th as required

a. How does the current makeup of your service area affect your budget assumptions?

b. Does the makeup of other service areas affect your budget assumptions? Explain.