Springfield Hospital Review

VERMONT
GREEN MOUNTAIN CARE BOARD

Summary

Springfield Hospital is a 25-bed Critical Access Hospital (CAH) located in Springfield, Vermont. Springfield Hospital is affiliated with the area Federally Qualified Health Center (FQHC).

Background

Springfield Hospital's recent financial struggles have been under the local microscope for several years. By June 2019, financial matters at the organization deteriorated to the point where the hospital was forced to file, along with the FQHC, for Chapter 11 Bankruptcy. As of December 2020, with the bankruptcy plan approved, Springfield emerged from Chapter 11.

During the near 18-month long bankruptcy process, in which the hospital's debts were significantly adjusted, Springfield Hospital simultaneously had to navigate the COVID-19 public health crisis. COVID-19 presented all Vermont Hospitals with major challenges in terms of safety for staff and patients, resources acquisition (supply chain), and short-term liquidity and financial solvency to name a few. However, given Springfield's financially tenuous state, matters for the organization where more pronounced during this period.

Springfield Hospital

Financial Statistics as of April 2021:

- Days Cash on Hand: 16.5
- Accounts Receivable Days: 56.1
- Accounts Payable Days: 55.7
- Year-to-date cumulative Gain (Loss): -$2.3 million

Average Payer Mix (No DSH) Year-to-date:

- Medicare: 31%
- Medicaid: 11%
- Commercial: 53%
- Rounding/Other: 5%

Key:

***Fully Reserved Value-based revenues**

****Chapter 11 Activity**

*****Cost Report Adjustment**

Year-to-date April 2021

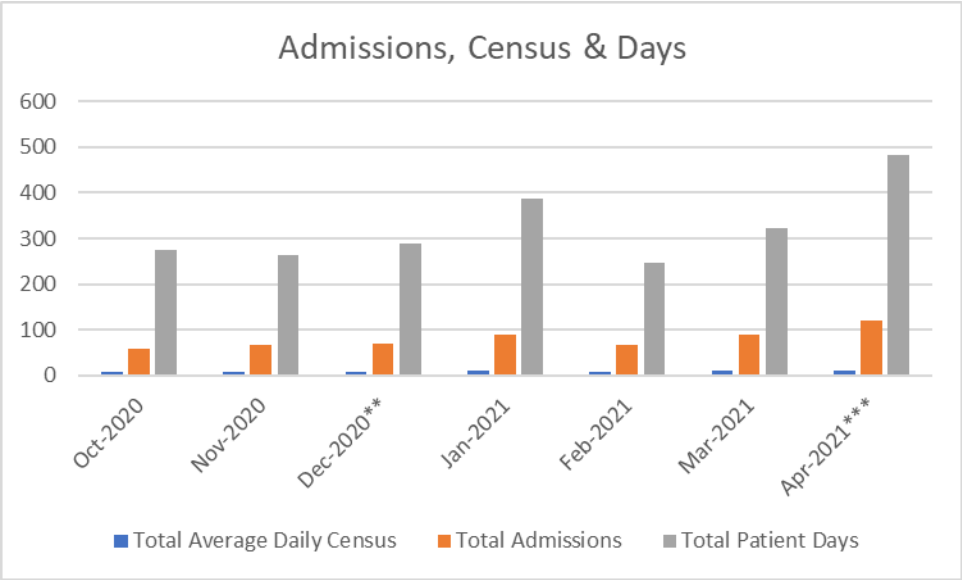
The analysis below is derived from the monthly financial submissions of Springfield Hospital. The figures reported are entirely those as completed by the leadership of the hospital. Specifically, the information below represents Springfield Hospital's financial condition as of April 2021, representing seven (7) full months of the 2021 fiscal year (FY21). The information herein has not been audited and is subject to change.

Utilization and Payer Mix

Utilization (Patient Volume)

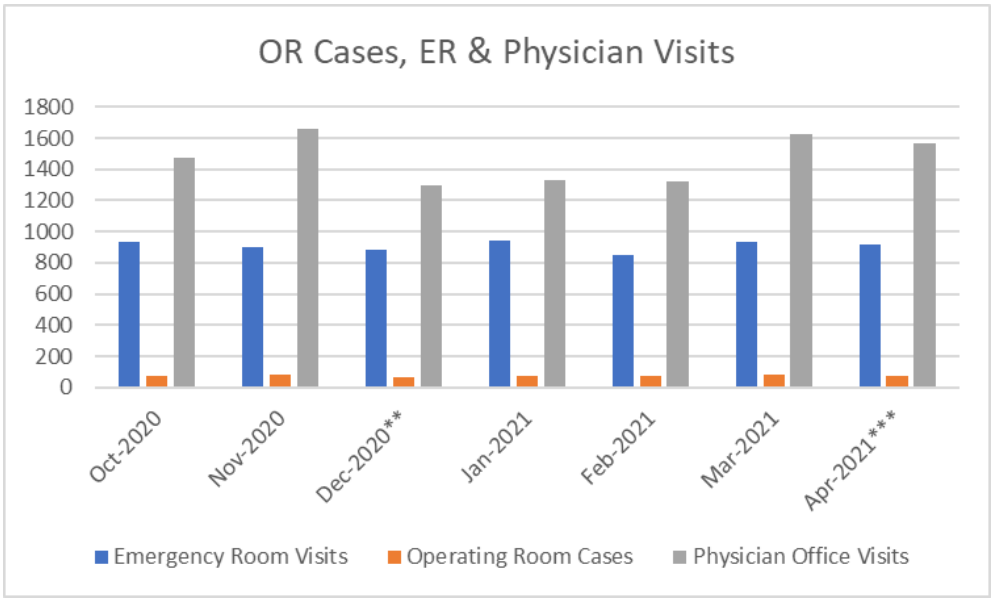
As of this reporting, Springfield has not submitted their final, audited figures, therefore, any comparison to actual historical activity in the near-term, is impossible. Furthermore, even if those FY20 figures were submitted, the impact of COVID-19 on FY20 utilization would make any year-over-year comparison and trend analysis difficult. Additionally, predicting utilization in FY21 during the GMCB hospital budget process was an impossible task with COVID-19 still raging. Recognizing this, GMCB did not require hospitals to report specific utilization numbers when submitting their FY21 budgets. Therefore, there is no recent numerical context to provide for this utilization analysis. What GMCB does have is knowledge from several months of regular conversations between Springfield Hospital leadership and GMCB. It is apparent, through the occurrence of this ongoing dialogue, that utilization at Springfield Hospital has not returned to pre-pandemic numbers.

In Springfield's FY21 budget presentation, it was stated that they budgeted for an average inpatient (I/P) daily census of 13.2 patients per day. YTD April 2021, Springfield is averaging 9 patients per day on their average daily census (ADC). Month-over-month the ADC has remained relatively constant, as the graph below will show. Total admissions were lowest in October and, as of April, finally eclipsed 100 admissions during a single month, reporting 121 total admissions for April. Following similar trends is Total Patient Days. During Springfield's entire first fiscal quarter (Oct.-Dec.) the hospital never surpassed 300 patient days. Since then, only February has been under 300, of which, some can be attributed to February being a shorter month (in days) than its counterparts. April saw the highest patient day count at 484.



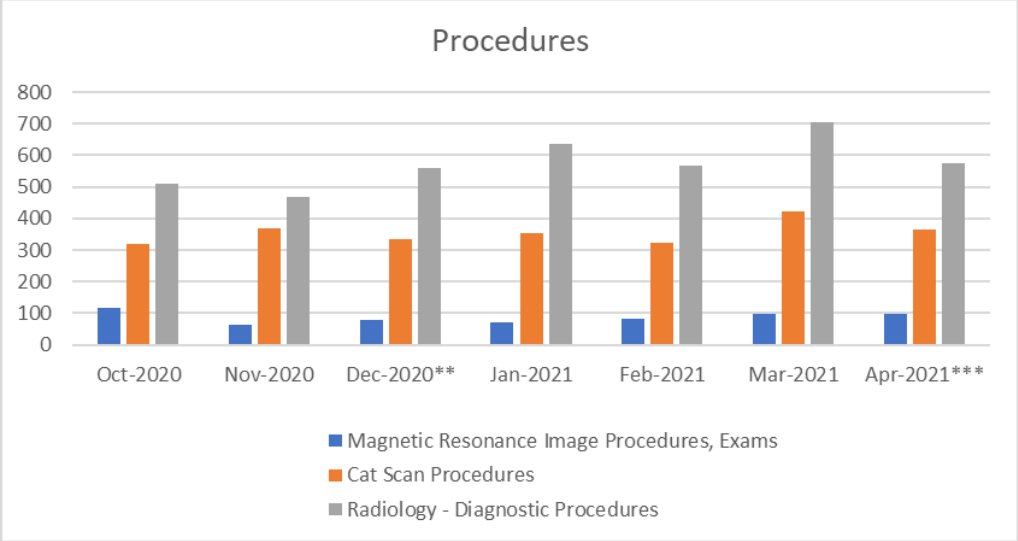
Physician office visits witnessed a reduction for several months when Vermont was dealing with the worst and longest sustained period of COVID-19's impact on the state. December through February reported physician office visits hovering around 1300 monthly. In March and April, Springfield is averaging nearly 1600 visits per month. The return of higher volume visits in March and April is a sign of returning confidence in a vaccinated State, as people return to seek primary care on a consistent basis.

Additionally, GMCB also captures Emergency Room visits and Operating Room cases. The graph to the right does not offer much in the way of trend analysis for ER and OR and without recent historical context it is difficult to draw conclusions from this statistical activity. From conversations with leadership, we do know that ER volumes have not rebounded to pre-pandemic levels. For national context, the *April*



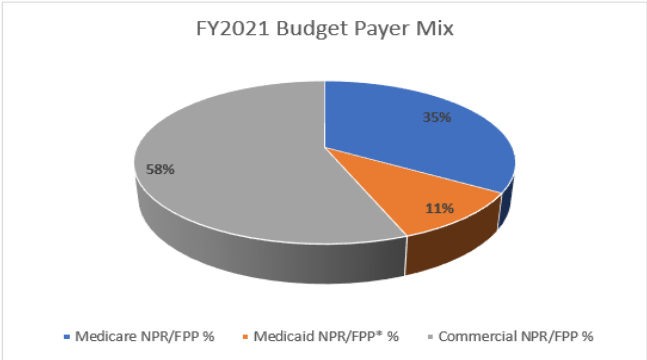
2021 Flash Report, Published by KaufmanHall states the following: *"Emergency Department Visits continued to see declines, falling 19.2% YTD and 3% YOY, but increased 20.3% MOM (8.2% on a daily adjusted basis). Operating Room Minutes rose 3.1% YTD and 21.1% MOM (9.7% on a daily adjusted basis). While surgery volumes remain down compared to pre-pandemic levels, the increases suggest that concerns over possible exposure to COVID-19 are easing as fewer people opt to delay non-urgent procedures. Year-over-year, Operating Room Minutes jumped 43.9% compared to March 2020, when many outpatient surgery services were cancelled due to the shutdowns."*

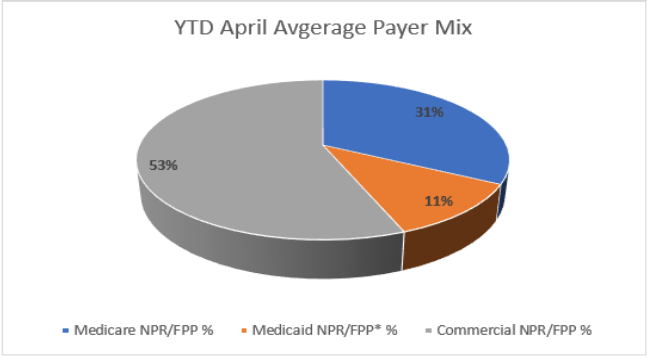
Finally, there appears to be no obvious patterns/trends from October to April in procedure statistics as reported by Springfield. For procedural activity, GMCB captures MRI's, CAT Scans, and Radiology-Diagnostic procedures.



Payer Mix/Collection Rate

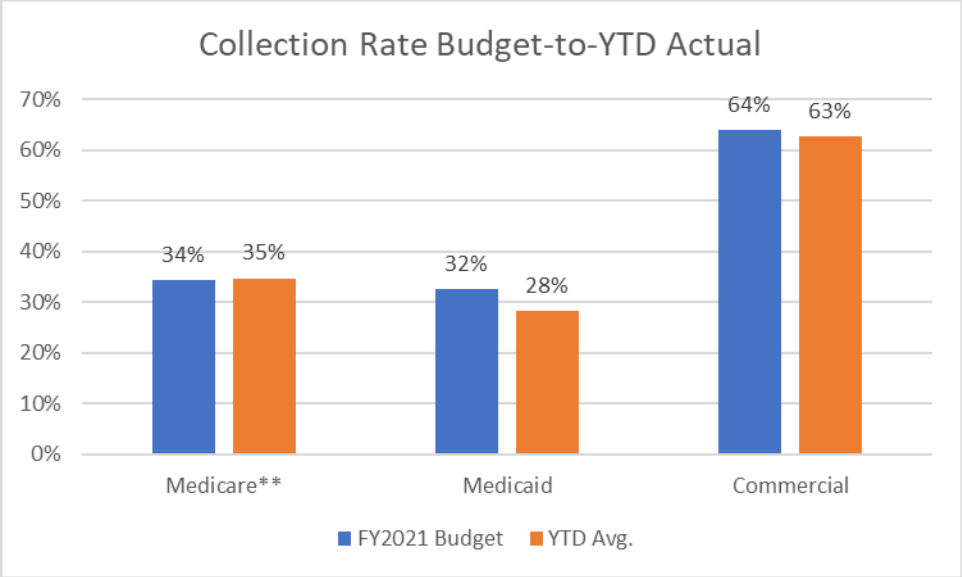
As part of the FY21 budget submission, Springfield anticipated an NPR/FPP payer mix (without Disproportionate Share Payments (DSH)) of 35% Medicare, 11% Medicaid, and 58% Commercial. It is important to note (as these percentages do not equal 100%) that there are multiple discrepancies in the figures provided. The sums of Medicare, Medicaid and Commercial do not add up to the total NPR/FPP provided which skews the weighted percentages (Note: The omission of DSH revenues is not the reason for the discrepancy). Due to the inconsistency in the revenues from which payer mix is calculated, it is difficult to assess trends as the analyst cannot verify the accuracy of the data reported. That said, the straight seven-month YTD average for payer mix (without DSH), as reported, is 31% Medicare, 11%, Medicaid, and 53% Commercial.





Springfield's Collection Rate, the percentage of net revenues that are derived from gross revenues after bad debt, free care, and deductions (contractual allowances), is relatively close to FY21 budgeted figures.

It is important to note that the figures used to calculate the collection rate are derived from the same source as the payer mix. Therefore, the same consideration should be given to the results based on statements made above regarding payer mix. Springfield's FY21 budget listed Gross to Net collection rates at 34% for Medicare, 32% for Medicaid and 64% for Commercial. YTD through April, collection rates are tracking relatively close to budget at 35%, 28% and 63% for Medicare, Medicaid and Commercial, respectively. Of note, bad debt and free care, both deductions from gross revenues which impact collection rate outcomes, are running under budget year-to-date. Bad debt is nearly 50% under budget at $1.48 million and free care is under budget by 33% at $446 thousand through April. It is logical that if Springfield's revenues YTD are lagging, these figures would lag budget targets as well.



Income Statement – Year-to-date April 2021

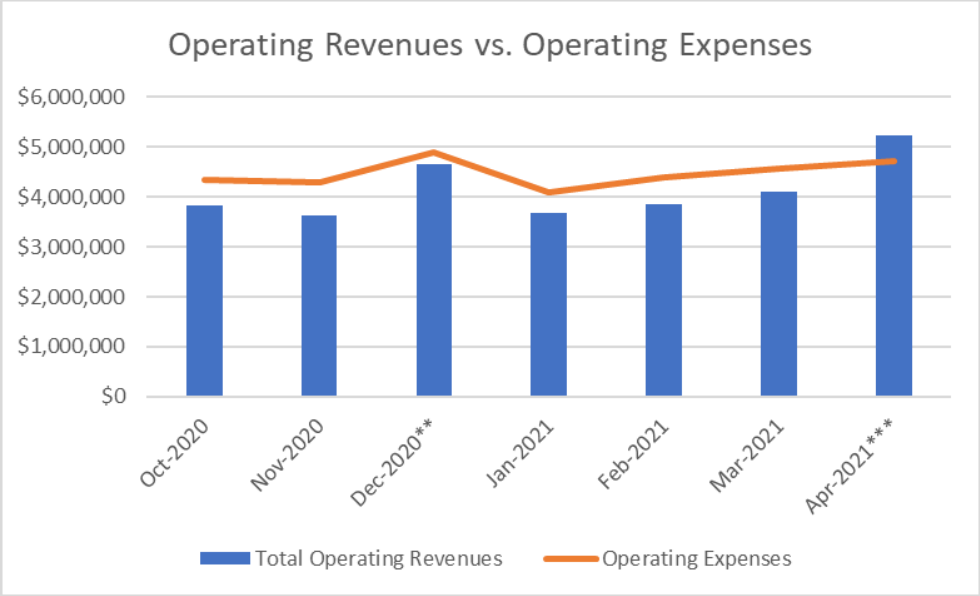
Although no definitive statements can be made regarding volume and payer mix/collection rate due to a lack of comparable figures, the activity from those operational perspectives will have a result in the financial statements.

Through seven months, Springfield is behind the YTD FY21 budget on Net Patient Revenues/Fixed Perspective Payments (NPR/FPP) by 11.4%, or $3.38 million. Two items should be noted: 1.) Springfield fully reserves for Medicaid FPP, which effectively reduces those revenues to zero dollars and 2) that mid-year actual performance to budget comparisons can be misleading as some hospitals budget for seasonality and others budget in twelve, equal monthly installments. However, with roughly 60% of the fiscal year completed, it can be concluded that Springfield is missing revenue targets. Additionally, in the FY21 budget narrative, Springfield leadership noted they were budgeting for an inpatient (I/P) census of 13.2 patients per day. Through April, Springfield is averaging 9 patients per day. Those 4 patients per day have a direct revenue and expense impact on the hospital.

It is noteworthy that in the month of April, Springfield posted a 38% increase in NPR over prior month. This increase was substantial as NPR eclipsed $5 million for the month, the first such instance YTD. Previously, December was the highest earning month, generating NPR of $4.2 million. All other months have been reported under $3.6 million. The increase in revenue activity was associated with the return of psychiatric

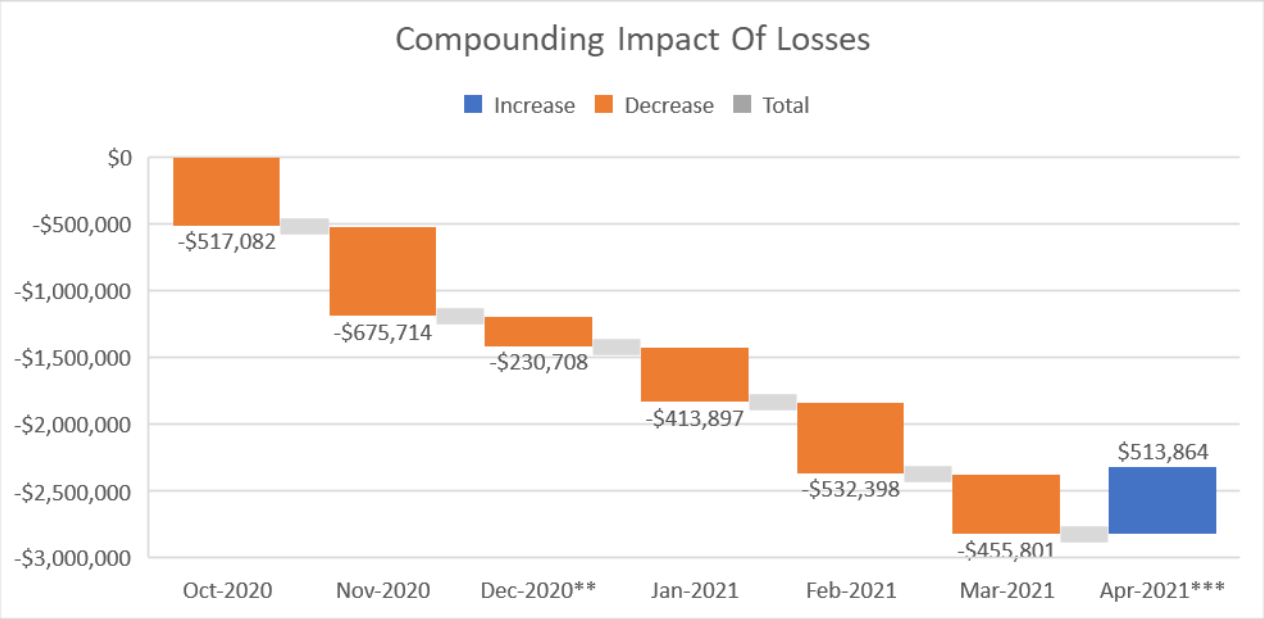
services in the psychiatric unit (previously a COVID unit) as well as Medicare underpayment and Cost Report reconciliations. These revenue adjustments were booked in April, however, the cash has yet to be received. Regarding the underpayment, Springfield has requested an expedited review from the Medicare Administrate Contractor (MAC) for the purpose of expediting the decision and receipt of funds owed.

Other operating Revenues (OOR), or revenues not derived from direct patient care, are exceeding budget by 150%, or $1.55 million. Driving this variance is Grant Income which, according to Springfield leadership, is specifically being driven by funds from the State of Vermont for continued operation of Springfield's psychiatric facility (Windham Center) and covering the cost of their Adult Day program. The psychiatric center has been converted to a COVID unit and the Adult Day program has not been available since the onset of COVID-19, but the State of Vermont has supplied funds to keep this service ready. Springfield intends to restart this service in early July.



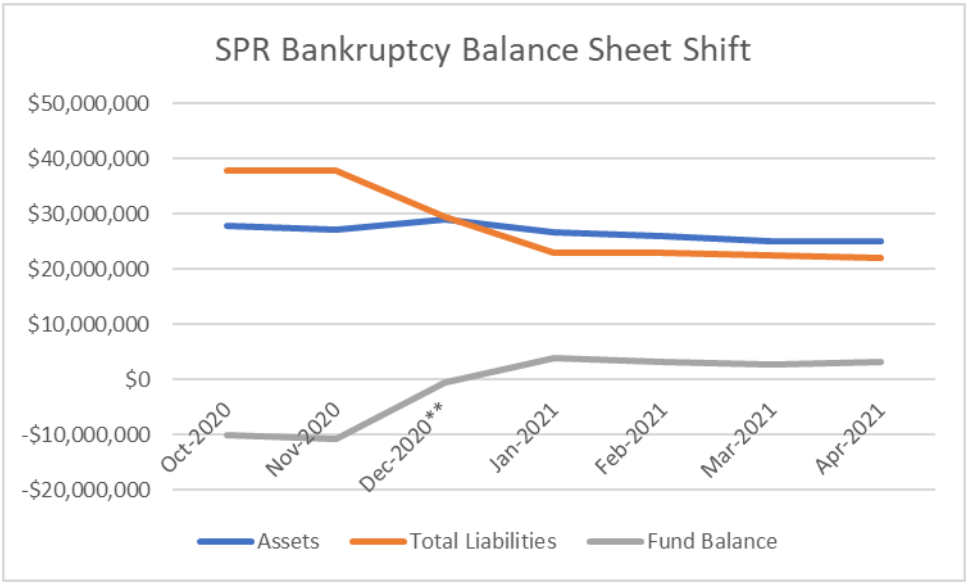
Operating Expenses, YTD, are exceeding budget by 4%, or $1.2 million. Conversations with Springfield leadership noted major drivers of the budget to actual variance are management and contract services, medical supplies and traveling staff. Line items which are offsetting the expense drivers are salaries, drugs and physician fees which are coming in under budget. A common trend throughout the year, as evidenced in the graph above, is that operating expenses continue to outpace operating revenues (NPR/FPP+OOR).

Overall, YTD, Springfield Hospital has posted net operating losses in six out of seven months with April being the outlier, posting a net gain of $514 thousand. As previously mentioned, the revenue activity in April was largely impacted by unforeseen Medicare activity and thus, a reoccurrence of this activity is unlikely. In the aggregate, the compounding month-over-month losses amount to a YTD net loss of $2.3 million which places further strain on the cash balances and cash flow of the hospital. Should Springfield continue this financial trajectory, it would mark the 5th consecutive year of financial losses exceeding seven figures. The graph below shows the impact of the compounding monthly losses on Springfield's bottom-line as of April 2021.



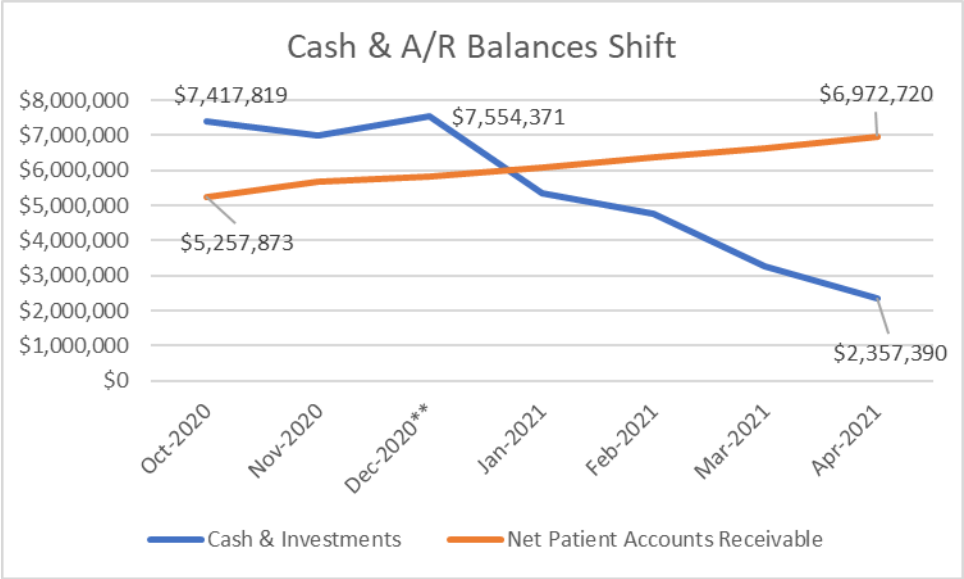
Balance Sheet

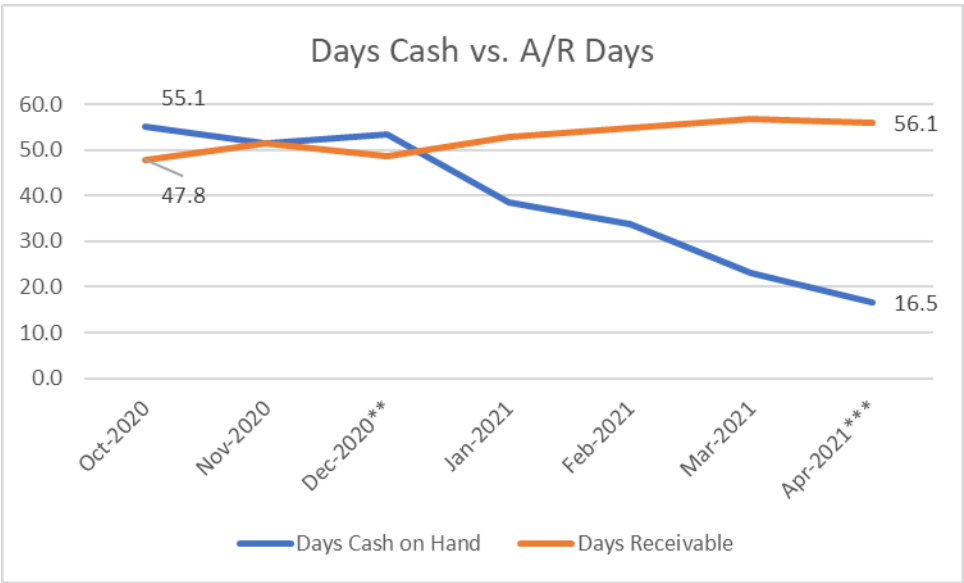
Everything discussed thus far will ultimately result in a balance sheet impact. Utilization, payer mix/collection rate all drive the dollars reported on the income statement which then pass through to the balance sheet.



The 2021 balance sheet activity for Springfield Hospital recognizes a lot of financial activity. The emergence from bankruptcy in December** and the debt adjustments that resulted, had major impacts on balance sheet accounting. The graph to the right shows the conversion from insolvency, prior to December, to a solvent organization post-December as liabilities (debts) are restructured, allowing asset balances to return to a superior position on the balance sheet and the fund balance (equity) to migrate into positive territory. The shift in Fund Balance is more visible in Appendix 1.

Since December, Springfield has been able to maintain solvency, however, the impact of month-over-month losses is placing continued strain on the hospital's financial outlook, especially on the short-term liquid cash position.





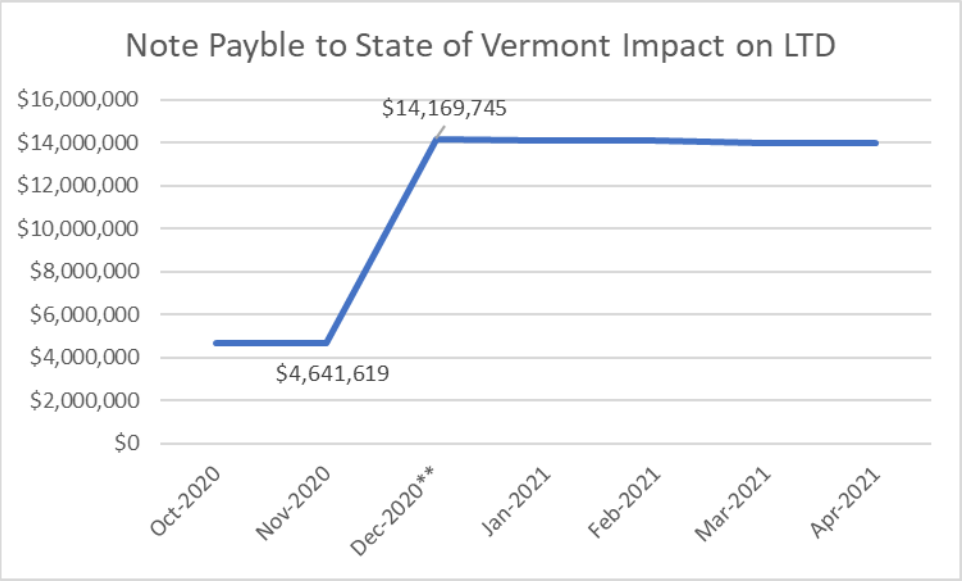
Fast forward to April 2021, and the Asset side of Springfield's balance sheet has weakened since the emergence from bankruptcy in December 2020. Most notably there has been a substantial shift in two important current asset line items which are a concern from a short-term liquidity perspective. First, cash balances have declined from $7.55 million in December, down to $2.35 million at the close of April. This activity represents a near 70% reduction, since December, in cash balances totaling $5.2 million. Days Cash on Hand, a measure of an organization's capacity to meet short-term obligations, has fallen from 53 days in December, down to 16.5 days in April. Second, Accounts Receivable (A/R) balances have grown. In the Income Statement section, it was noted that revenues derived from patient care (NPR/FPP), except for April, have been relatively flat throughout the year. This is important because A/R balances increase for two reasons: 1) revenues are growing and thus more revenue has been billed and is to be collected; 2) the organization is having difficulty collecting the money it is owed. Because revenues are not growing, we can conclude that Springfield is having revenue cycle management issues which are causing billing delays and thus driving up A/R balances. This detail also shows up on a balance sheet measurement known as Accounts Receivable (A/R) Days. The corresponding graphs shows A/R Days have increase by 9 days since the beginning of the FY – October 2020. The concern here is twofold: 1) the longer these balances exist, the less likely they are to be collected, especially if the hospital begins to miss timely filing requirements set by payers; and 2) in order to pay vendors, Springfield is utilizing the existing cash balances, which are not being replenished by efficient revenue cycle management. The cash is going out, but it is not coming back in to keep existing balances stabilized. See the shift in asset concentrations by value in Appendix 2. In October, Cash balances held the second position only to Property, Plant and Equipment in terms of value size on the balance sheet. As of April, A/R values have eclipsed cash and now sit in second position for asset value size.

Compounding this issue is that Springfield posted several consecutive months of sizeable operational losses YTD which also drains cash balances as expenses exceed revenues. The combination of losses and lack of

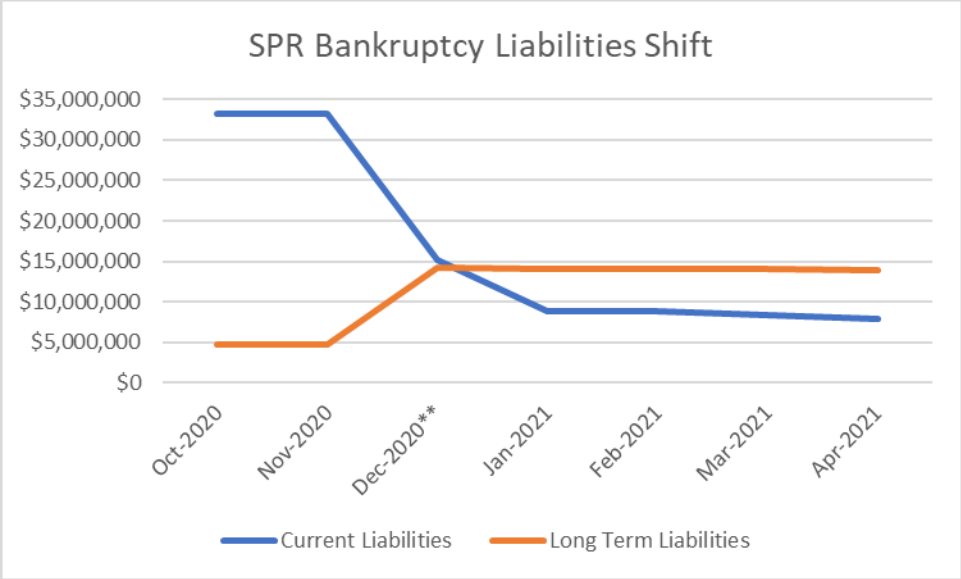
timely collections in A/R to replenish cash balances is an immediate concern regarding the short-term viability of Springfield as an operating entity. To put matters into context, Springfield could hypothetically have posted large operational gains from October to April but, if they do not collect on those revenues in a timely manner by managing A/R balances through efficient revenue cycle management they would still be in a very risky financial position.

Furthermore, Springfield reported in April that they pay vendors, on average, every 56 days. This is an improvement from where they began their fiscal year, and the reduction of this figure (from 247 days in October) is a direct result of bankruptcy adjustment activity. However, should Springfield's cash situation continue to deteriorate at the current rate, or faster, leadership of the hospital will need to begin to withhold payment to vendors and A/P Days will rise. The hospital spent about $153 thousand per day in April, much of that associated with payroll. Payroll is always top priority in cash management. If you cannot make payroll, the warning signs begin to gain momentum. It is because of this that Springfield will likely make every effort to withhold payment to vendors should the cash position continue to weaken.

There are some factors which could slow, and partially reverse, the reduction of cash balances. First, and directly within Springfield's control, is that we know from Springfield's leadership that they have hired a revenue cycle director within the last few weeks. If effective, this individual should be able to make the changes necessary to reduce A/R balances through collection activity. For context, if the new Revenues Cycle Director can return A/R balances to December levels, that would equate to another $1 million in cash. Second, are two items related to Medicare; the aforementioned Medicare underpayment and Cost Report settlement activity could also benefit Springfield's cash balances. Springfield noted, in discussions with GMCB, that they have been notified of YTD underpayments which should return money to the hospital, and that the most recent Cost Report filing should return to them and additional $1.3 million. Additionally, they have requested an expedited review of their underpayment case by the MAC who oversees reimbursement of Medicare activity in the region. Third, Springfield is challenging the Small Business Administration's (SBA), attempt to block the receipt of roughly $5 million in Paycheck Protection Program funds being held in escrow. According to leadership, the bankruptcy judge ordered those funds held in escrow until Springfield emerged from bankruptcy. To date, the SBA has refused to release those funds to Springfield and the hospital is actively challenging this effort in hopes that the funds will be released to help them offset some of the costs borne by them during the COVID-19 pandemic.



Other notable activity on Springfield's balance sheet largely pertains to liabilities. With the bankruptcy finalized, and Springfield's debt situation adjusted, the organization was given some financial breathing room from creditors. See Appendix 3 which will show the realignment of liability values pre-bankruptcy (October) and post-bankruptcy (April). The largest shift is that of Long-Term Debt (LTD). With the State of Vermont providing support for the hospital, Springfield assumed a near $10 million note payable to Vermont. This activity combined with debt relief from creditors shifted Springfield's liability concentrations from current to long-term.



Conclusion

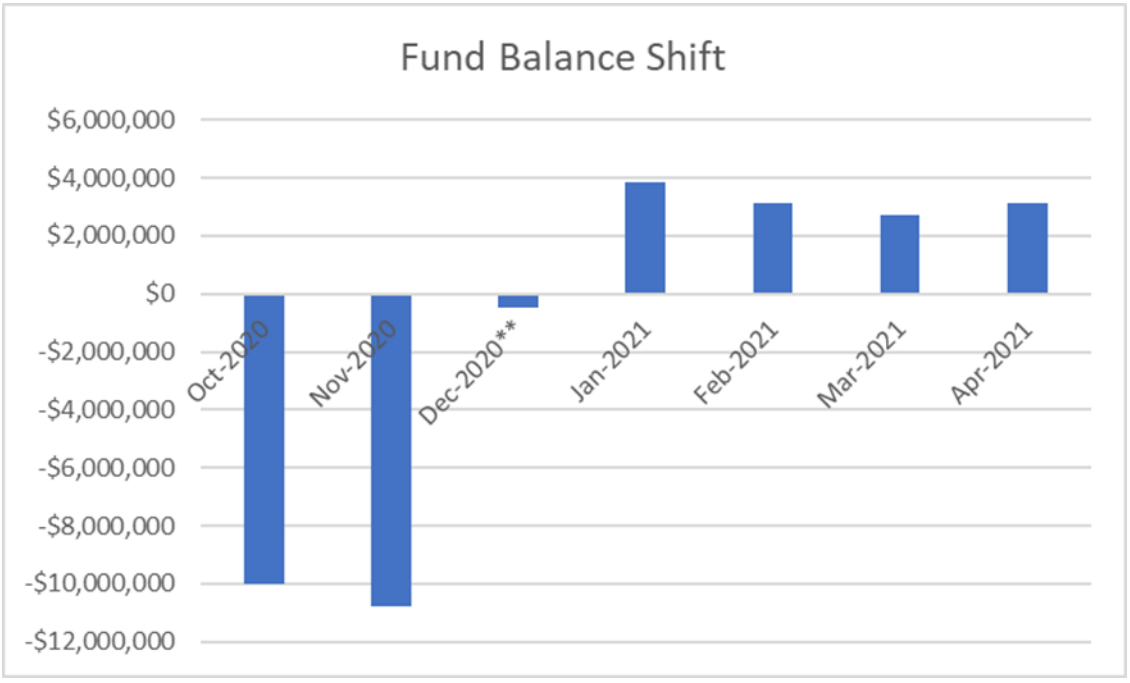
Due to the bankruptcy settlement, Springfield's balance sheet is in substantially better condition than it was one year ago. However, as outlined in this analysis there are still many challenges ahead for Springfield hospital and leadership. As outlined, the immediate challenges relate to operational losses, combined with delayed cash collection activity which is placing continued strain on the hospital from an operating perspective and threatens the hospital's viability as a business.

As of this report, the hospital has new leadership in place. The most pressing financial matters for the leadership team are the need to slow the drain on cash balances buy limiting operational losses and improving the efficiency of collection activity. If they can do this, they can buy time to make the necessary changes in the hospital's operations. Additionally, if Springfield can get favorable treatment from Medicare, sooner, not later, in the form of reimbursement adjustments for underpayments and the cost report settlement, the cash position will improve if losses do not grow worse. Absent these possible scenarios, and the rate at which cash balances are being extinguished, combined with no reserves on the balance sheet, an outside party may have to provide a cash injection if the hospital is to survive the remainder of the FY2021 fiscal year.

Additional Resources

- https://www.kaufmanhall.com/ideas-resources/research-report/national-hospital-flash-report-summary-april-2021Link
- https://gmcboard.vermont.gov/sites/gmcb/files/documents/FY20VermontHospitalReportingYearEndActuals_BoardPres_20210303_Updated20210308.pdf

Appendix 1:


Fund Balance Shift
$6,000,000
$4,000,000
$2,000,000
$0
-$2,000,000
-$4,000,000
-$6,000,000
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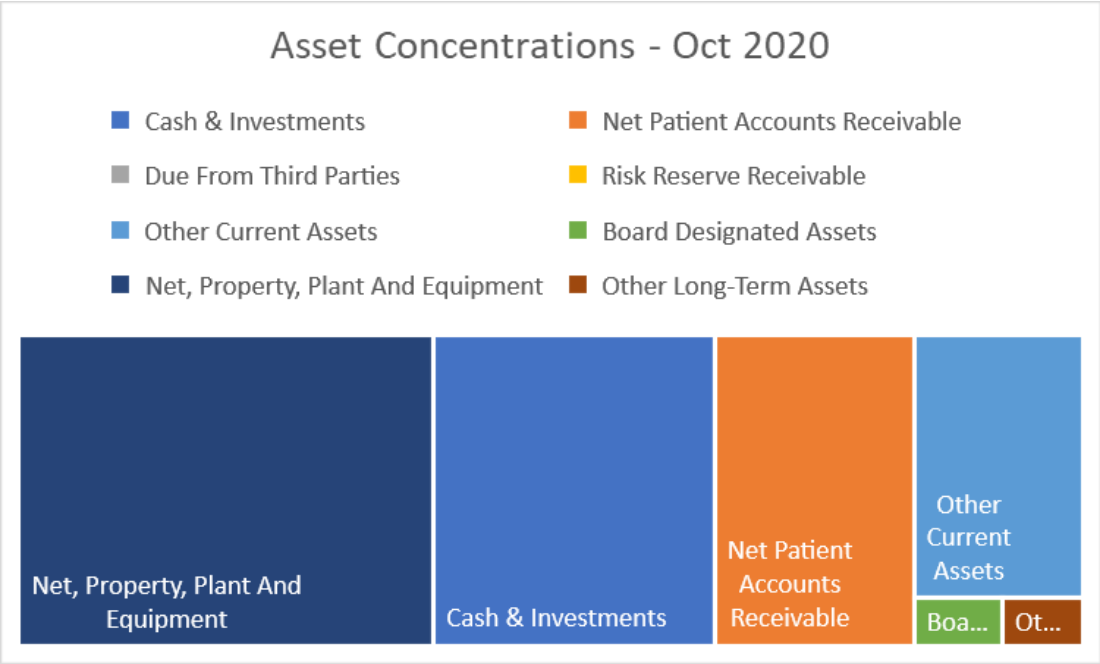
Oct-2020
Nov-2020
Dec-2020**
Jan-2021
Feb-2021
Mar-2021
Apr-2021

Appendix 2:


Asset Concentrations - Oct 2020
Cash & Investments
Net Patient Accounts Receivable
Due From Third Parties
Risk Reserve Receivable
Other Current Assets
Board Designated Assets
Net, Property, Plant And Equipment
Other Long-Term Assets
Net, Property, Plant And Equipment
Cash & Investments
Net Patient Accounts Receivable
Other Current Assets
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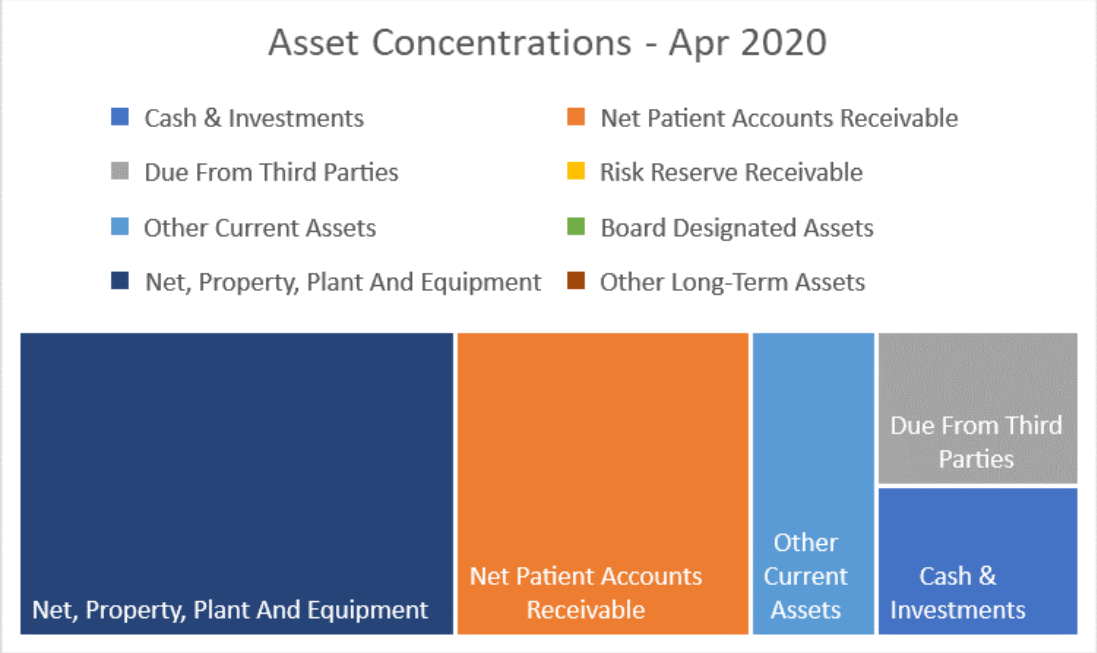
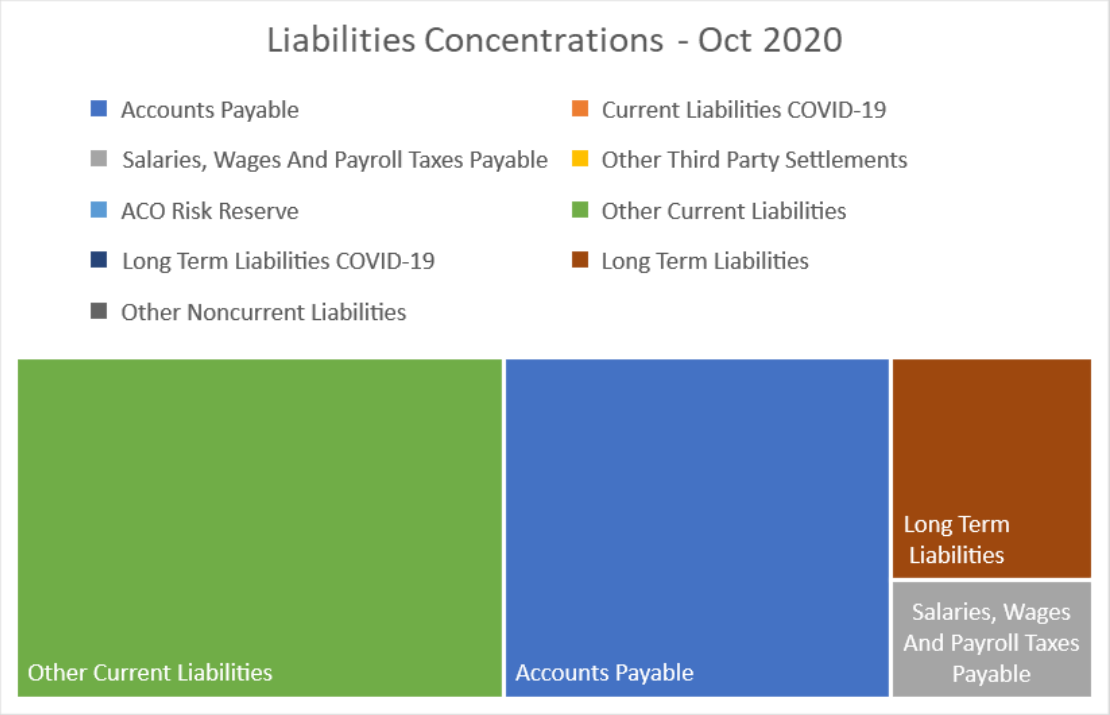
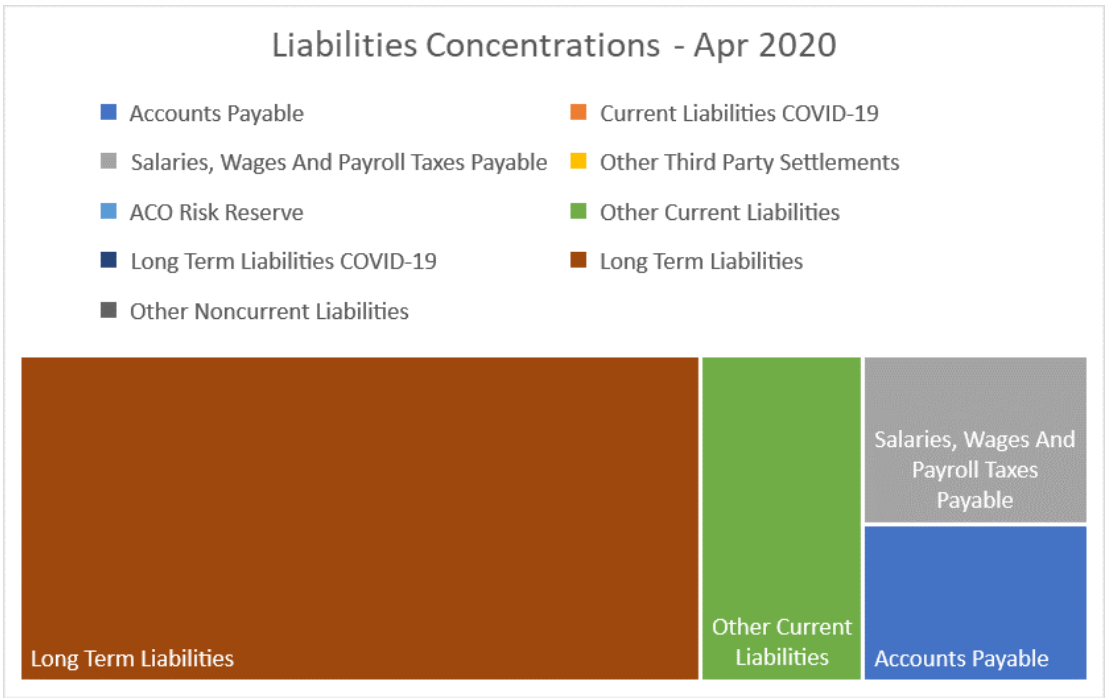

Asset Concentrations - Apr 2020
Cash & Investments
Net Patient Accounts Receivable
Due From Third Parties
Risk Reserve Receivable
Other Current Assets
Board Designated Assets
Net, Property, Plant And Equipment
Other Long-Term Assets
Net, Property, Plant And Equipment
Net Patient Accounts Receivable
Other Current Assets
Due From Third Parties
Cash & Investments

Appendix 3:





Last Updated: June 2021