SPRINGFIELD HOSPITAL
FY2022
BUDGET NARRATIVE

A. Executive Summary Overview

Springfield Hospital is a Critical Access Hospital (CAH) with 25 Acute/Swing Beds & 10 Psychiatric Beds. The Hospital has an average daily census of 9.4 acute patients and 2.28 psychiatric patients (volume reduced due to reserving the facility for COVID) in FYTD 21(05-31-21). The Hospital has 7,325 ED Visits (or 30 per day) in FYTD 21. Surgery Volume is 592 in FYTD 21 (primarily composed of community needed General Surgery, ENT, Orthopedic, Urologic, and Gynecologic cases). In addition to Inpatient and Outpatient services, the Hospital offers scare and needed professional services (Surgery, ENT, Gynecology, Orthopedics, Urology, and Psychiatry) in the service area. As of 5-31-21, the Hospital has 406 employees on the payroll (FYTD 5-21) and is a major economic factor in the Springfield and surrounding community.

The hospital remains committed to providing healthcare access to Springfield, Vermont and the surrounding area. The importance of the hospital was demonstrated in FY 2021 due to the significant role the hospital played in the COVID pandemic. The Hospital supported critical COVID community health efforts by providing ED, Med/Surg, and Psychiatric beds for COVID patients as well as administering 16,124 YTD doses of vaccine. The COVID-19 pandemic has presented numerous challenges to the Hospital in providing healthcare while keeping patients and staff safe. The difficult payer mix, demographic profile, economic outlook, comparatively poor health status of our residents, shortage of trained health care professionals, and the increasing social factors (poverty, low educational attainment, drug use, crime, etc.), all have contributed to the challenges that the hospital has faced in 2021. However, these circumstances also show the importance of the hospital surviving and becoming sustainable to insure future healthcare access for the area.

The events of FY 2021 have made this a challenging year for Springfield Hospital in terms of the ongoing negative volume impact of COVID as well as the continued Chapter 11 and restructuring costs. The Hospital was able to successfully sustain improvements in operating costs achieved in previous years, however volume and revenue shortfalls have continued to drive negative margins.

The hospital (along with Springfield Medical Care Systems--SMCS) successfully emerged from Chapter 11 reorganization in December of 2020 and the two organizations split into separate, distinct corporations. A Shared Services Agreement has allowed the organizations to continue to share costs while emphasizing an ongoing close and collaborative working relationship.

Comparing the FY 21 to the FY 22 budget, service changes are projected to be minimal. In FY 21, the Hospital restructured the Inpatient Hospitalist services. Currently, the same group is providing both Inpatient Hospitalist services as well and the Emergency Department services. This arrangement is allowing increased communication and coordination for our patients. In FY 22, the Hospital expects to restructure Radiology services by converting the Radiology provider to Dartmouth. The Hospital is currently recruiting a General Surgeon (to strengthen the existing program), a Podiatrist, and is evaluating adding Pain Management (both unavailable services). Areas of focus for FY 22 include growing the Psychiatric Program back to pre COVID levels and building our Swing Bed service.

For FY 22, the Acute Average Daily Census (including OBS and Swing) is projected at 10.5 versus FY 21 Actual at 9.4. We expect the shortage of post-acute beds in the marketplace to help grow our Swing Bed Patient Days from 251 PD Projected for FY 21 to 730 PD Budgeted for FY 22.

The Hospital entered into a collaborative agreement with the Department of Mental Health (DMH) in May 2020 to treat only psychiatric patients positive for COVID. This collaboration was successful and provided critical capacity in a market with scarce Psychiatric Inpatient Beds. The collaboration was completed on March 31, 2021 and the Hospital resumed normal operation of the Windham Center on April 1. As a result, FY 21 average daily census (ADC) is projected at 2.3. The Hospital is projecting an ADC of 8 in FY 22 with an emphasis on meeting the Psychiatric needs of the area.

The Emergency Department also experienced a decrease in the patient visits from FY 20 (Actual at 12,234 or 33.5 per day) to FY 21 Projected at 10,988 (or 30 per day). We attribute the decline to COVID. We expect a gradual increase in visits as the pandemic declines. The visits for FY 22 are budgeted at 11,500 (or 31.5 per day).

Operating Expenses are expected to increase in FY 22 to $55M versus Projected FY 21 of $53.6M. Improvements in operations from prior years have carried forward, however increases have been budgeted in COLA and 401K match (to remain competitive in a scarce labor market) as well as increases due to Psychiatry and Adult Day Care returning to normal operations.

B. Year-Over-Year Changes –

i.NPR Overview

Compared to FY21 Budget

NPR for FY22 is budgeted to be a 7.8% increase from FY21 budget due to the rate increase request (see Part B iii) which is a $3.9M increase ($6.1M rate impact, -2.1M utilization) from the FY21 NPR Approved Budget. See table below for the changes expected by payer.

Total	Total Medicare	Total Medicaid	Total Commercial	Total Self-Pay/Other	DSH
$ 3,968,744	$ 2,529,896	$ (682,390)	$ 2,464,764	$ (158,526)	$ (185,000)
7.8%	15.0%	-10.7%	9.6%	-31.0%	-18.3%

Compared to FY21 Projected:

NPR for FY22 is budgeted to be a 21% increase (a $9.3M increase - $6.1M rate impact, $3.2M utilization) from the FY21 Projected. See table below for the changes expected by payer.

Total	Total Medicare	Total Medicaid	Total Commercial	Total Self-Pay/Other	DSH
$ 9,357,000	$ 8,471,000	$ 439,000	$ 74,000	$ 373,000	$ -
21%	77%	8%	0%	0%	0%

The Hospital does not intend to change its charity care and collection policies during FY 2022.

ii. NPR/FPP: Utilization

Compared to FY21 Budget : Without a rate increase NPR compared to FY21 budget would be a decrease of 4.2% or ($2,1M).

NPR	Total	Total Medicare	Total Medicaid	Total Commercial	Total Self-Pay/Other	DSH
Disproportionate Share Payments (DSH)	$ (185,000)					(185,000)
Utilization (not factoring in change in charge request)	$ (4,734,960)	808,458	(2,149,773)	(354,929)	(3,038,716)	
Bad Debt/Free Care	$ 2,450,000				2,450,000	-
Other (Charity Care)	$ 335,000				335,000	-
	$ (2,134,960)	$ 808,458	$ (2,149,773)	$ (354,929)	$ (253,716)	$ (185,000)

Compared to FY21 Projected:
For FY 2022, the Hospital projects the ongoing impact of COVID to negatively affect volume for Acute Admissions. However, the Hospital is expecting growth in Swing Bed patients and a return to Pre-COVID volume for Psychiatry as well as a slow recovery in ED visits and surgery cases. (See table below)

	FY2019	FY2020	FY2021 Projected	FY2021 Budget	2022 Budget
Acute Admission	1,111	875	884	980	794
Acute Patient Days	4,315	4,811	3,669	4,611	3,828
Swing Admissions [a]	19	8	28	44	81
Swing Days	174	75	251	393	730
Psychiatric Admissions	333	190	107	342	360
Psychiatric Patient Days	2,622	1,664	831	2,668	2,920
ED Visits	14,254	12,234	10,988	13,121	11,500
Surgical Cases [b]	1,115	793	888	861	916

iii. **Charge Request**
The Hospital requests a FY 2022 NPR rate increase of 7.8%.

- The rate request would add $11.8M to GPSR.

	Totals	Medicare	Medicaid	Blue Cross	Commercial	Other	Self Pay
Inpatient	2,345,458	1,155,496	200,276	234,546	652,911	31,865	70,364
Outpatient	9,463,892	3,369,710	1,892,778	1,324,945	2,463,967	128,575	283,917
Totals	**11,809,350**	**4,525,206**	**2,093,054**	**1,559,491**	**3,116,878**	**160,440**	**354,281**

- The rate request would add $6.1M to NPR.

Total	Total Medicare	Total Medicaid	Total Commercial	Total Self-Pay/Other
$ 6,103,704	1,721,438	1,467,383	2,819,693	95,190

- While the requested increase is above 3.5%, the hospital only received a 3.5% increase in FY21. Please note, however, that the Hospital cut NPR/FPP Budget by 19% in 2020 and was approved for a 4% increase in FY19.

- This rate is being requested to continue the hospital's recovery from both the pandemic and Chapter 11 to help ensure that operations remain sustainable in 2022, and that essential community hospital services (particularly scarce ED, Surgery, Med/Surg & Swing, and Psychiatry) continue to be available. In the absence of the requested increase, Springfield Hospital will continue to face significant financial challenges in the coming year.

- Days cash is currently at 18 days. The 7.8 % rate request will not improve this position but rather prevent the hospital from exhausting cash reserves ***as shown in the table below***.

- The 7.8% increase will also allow Hospital to fund high priority capital needs which could not be funded while in Chapter 11 and during COVID. Chapter 11 has made it difficult for the Hospital to obtain financing even exiting same.

- Additionally, the Hospital has an underfunded, frozen defined benefit plan that requires reinstatement of ongoing funding. Estimated cash funding is 750,000 for FY22 to help bring the plan closer to a funded status.

	No Increase	3.5% NPSR Incr	8.0% NPSR Incr
Gross Patient Revenue	107,357,713	114,565,710	119,167,063
Deductions	58,892,953	62,194,446	64,598,472
Net Patient Revenue	48,464,760	52,371,264	54,568,590
Total Operating Revenue	50,858,760	54,765,264	56,962,590
Total Expenses	55,043,929	55,043,929	55,043,929
Operating Margin	(4,185,169)	(278,665)	1,918,661
Total Margin	(4,874,644)	(968,140)	1,229,186
EBITDA	$ (4,185,169)	$ (278,665)	$ 1,918,661
Add Depr & Interest	$ 1,345,000	$ 1,345,000	$ 1,345,000
Debt Payments	$ (1,113,000)	$ (1,113,000)	$ (1,113,000)
Pension Expenses Funding	$ (750,000)	$ (750,000)	$ (750,000)
Capital Purchases	$ (1,400,000)	$ (1,400,000)	$ (1,400,000)
Cash Flow Impact	$ (6,103,169)	$ (2,196,665)	$ 661

iv. Adjustments
A new general surgeon is anticipated to join the later part of 2022. The Hospital is recruiting for this position to replace a second surgeon that left the system in 2019.

v. Other Operating and Non-Operating Revenue
a. Operating Revenue **-** The FY22 budget includes budgeting the Adult Day program to be fully operational after being closed for most of FY21 due to COVID restrictions.

Additionally, the budget includes revenue associated with the Master Shared Service Agreement with Springfield Medical Care Systems (the organizations continue to share overhead). This was not budgeted in FY21 but is included in FY21 actual.

Non-Operating Revenue – FY21 Actual includes a gain from Chapter 11. After exiting Chapter 11 on Dec 31, 2021 for release of debt, there is no budget in FY22. Additionally, there is a $750,000 pension plan expense estimate related to the Hospital's frozen defined benefit plan which is consistent with FY20 actual.

b. **COVID-19 Funding:** Springfield Hospital received $8.2M in COVID-19 funding in FY2020, with $7M recognized as income during the fiscal year. $5.4M came from CARES Act funding, $1.5M from state funding for the construction and operations of a COVID unit at our distinct part inpatient psych unit (Windham Center), and also state funding to support the fixed expenses of the Adult Day program which could not operate after the pandemic through the first three quarters of FY21. The Hospital received $1.3M in COVID relief funding from the State of Vermont at the beginning of the pandemic, which was held as a liability and settled as part of the exit from Chapter 11 in December 2021. In FY21, the State funding received in FY20 continued for a total of $2.2M in COVID funding, of which $2.1M was recorded as revenue. Springfield Hospital also received a $2M Provider Assistance Grant from the State of Vermont in FY21. FY21 funds received also include funds for holding vaccine clinics from February through June. None of the grant funds mentioned above are budgeted in FY22.

c. We anticipate $200K in the FY22 budget for COVID funding to offset continued COVID incremental expenses (lab testing, supplies, etc). We have not identified a specific known source of the funding at this time but are optimistic that there will be funding available to offset the costs the Hospital will continue to incur.

The Hospital was approved for Round 1 funding of the Payroll Protection loan program, however the funds were withheld due to the Hospital being in Chapter 11. The Hospital has filed an appeal, but has not received any funding. This is not included in the FY22 budget.

The Hospital anticipates receiving Provider Relief Funding, however the Hospital has not received an update on expected timing. This is not included in the FY22 budget.

d. None identified at this time.

vi. Operating Expenses

a. 2022 Budget compared to 2021 Approved Budget is an increase of $3.3M. This is due to several factors including the following:
   - 2% COLA increase as of December 2021
   - Reinstate 401K match to employees
   - Patient Sitter Program (currently using existing staff paying premium pay overtime, etc., and/or existing contracted security who are contracted for overall facility security, limiting/preventing ability to oversee general facility).
   - Travelers – high reliance on due to staffing shortages in professional areas
   - Increase in employee benefits (health, dental, vision, etc.) due to normal inflation
   - COVID related expenses – not budgeted in FY21 but continued in FY22 for incremental expense such as lab testing, supplies
   - Increase in overall supplies and pharmaceuticals, including an increase in OR supplies due to increase in volume in FY21
   - Staff and provider recruiting costs

b. 2022 Budget Compared to 2021 Projected is an increase of $1.7M
   - Psych Inpatient Unit and Adult Day Program fully operational in FY22 vs. FY21
   - No bankruptcy related expenses budgeted in FY22
   - QHR restructuring fees for consulting services are reduced and include no interim executive leadership cost in FY22
   - See vi. a) above for others

c. Allowances for inflation have been included in departmental expense budgets (supplies, pharmaceuticals, contracted services)

d. Cost Savings Initiatives - currently, the Hospital is negotiating a change in radiology provider– annual savings is estimated to be $200K+ per year.

vii. **Operating Margin and Total Margin**

a. The FY22 Operating margin and total margin were developed based on the EBITDA and cash requirements for the Hospital to be a sustainable organization in FY22. The requested 7.8% rate increase is not expected to improve the Hospital's cash position but instead to prevent it from exhausting cash reserves. See schedule below to show comparisons of NPR and cash flow. **(refer to table in Section B iii)**

FINANCIAL RESULTS
(IN THOUSANDS)

	2019 Actual	2020 Actual	2021 YTD 4/30	2021 Projected	2022 Budget
Total Operating Revenue	$50,241	$47,281	$28,952	$49,632	$56,961
Total Operating Expenses	$58,479	$52,595	$31,264	$53,595	$55,043
Net Operating Income	$(8,239)	$(5,314)	$(2,311)	$(3,962)	$1,918
Adjusted Admissions	8,020	5,310	2,830	5,815	6,328

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b. The budget request does not include support or a need to support other external entities.

C. Risks and Opportunities

The Hospital continues to be at risk due to the general challenges faced by rural hospitals in America. These include: difficult payer mix, demographic profile, economic outlook, comparatively poor health status of our residents, shortage of trained health care professionals, and social-economic factors (poverty, low educational attainment, drug use, crime, etc.). Our FY22 Budget addresses these challenges by focusing on improved financial performance post-Chapter 11 and as the pandemic becomes controlled. Needed providers (such as General Surgery and Podiatry) as well as programs such as Psychiatry, Swing Beds, Emergency Medicine, and Adult Day Care will all be focused on in FY22. Funding for Employee Benefits will also strengthen our ability to recruit and retain scarce health professionals.

COVID has presented numerous challenges to the Hospital. As with many hospitals in Vermont, ED boarding and throughput remains a challenge.

During COVID, the Hospital reviewed our mass casualty response plan and we are better prepared to respond to future incidents as a result of the pandemic. Our experience with mass vaccination and testing sites has significantly improved as well as our ability to adjust to the changing needs of our marketplace. Recruitment and retention of skilled, professional staff remains a challenge and the lack of staff is resulting in increased costs.

D. Value-Based Care Participation

i. The Hospital participated in the Medicaid and Blue Cross ACO in 2020 and 2021, and will continue this participation in 2022.

ii. The Hospital is projecting $98,000 and $100,000 for ACO Dues for FY21 and FY22, respectively.

iii. The ED and Hospitalist providers have been combined to improve coordination and transition of care.

iv. The Hospital continues to encounter barriers with respect to increased value-based participation due to the challenged payer mix, demographic profile, economic outlook, comparatively poor health status of our residents, shortage of trained health care professionals, and the social-economic factors (poverty, low educational attainment, drug use, crime, etc.) of our community. In terms of opportunities, the Hospital has a quality group of specialty physicians in our hospital-based practices as well as a strong partnership with SMCS, our local FQHC (and former Hospital owner). These relationships facilitate communication and coordination among providers.

v.

a. The Hospital continues to accept risk in the ACO for Medicaid and Blue Cross. However, due to the financial health of the Hospital, the organization is unable to accept any increased risk. The Hospital will be more receptive to increased risk as the overall financial status continues to improve.

b. It is our understanding that Medicare and Vermont commercial payers are continuing to work toward offering financially sound population-based fixed payments. However, with no solid framework defined at this point, it is not possible for us to speculate on a timeline.

   Some important variables to consider include overall funding strategy, payment amounts and schedules, patient confidence in utilizing healthcare services overall due to COVID, ongoing utilization of Springfield Hospital services in light of its recent reorganization, and health outcome trends and associated costs in light of delayed preventive care due to COVID. It is likely that Medicare and commercial fixed payment programs would have to be different from each other, with commercials providing higher payments than Medicare; and Medicare increasing funding to critical access hospitals.

   To date, Springfield Hospital has not been involved in any OneCare ACO discussions relative to population-based fixed payments. More involvement would be necessary in the future to reach a conclusion. Past financial experience was not favorable to Springfield Hospital and it was financially prudent to withdraw from the Medicare portion of the program.

c. It would be essential that any program design support Springfield Hospital's cash, operating, and capital plans for ongoing sustainability. Funding would have to demonstrate administrative efficiency and ample funding to its participants.

vi. What is the value of your maximum risk liability by payer for FY22?

We estimate our maximum risk liability for Medicaid to be $225,000.

E. Capital Investment Cycle

i. During the challenging financial picture of the Hospital during Chapter 11and the Pandemic, the Hospital has not had the necessary cash (or the ability to borrow capital or lease assets) to make needed plant and medical technology investments to update the Hospital. Several Capital items are approved for FY 21 but have not been funded (these include replacement HVAC and an upgrade to our access control system). The Hospital has budgeted for Capital equipment for $1,400,000 in FY22. The majority of the CAPEX budgeted is laboratory and imaging equipment that is in need of replacement. A schedule of projected Capital needs for 22 is included for review.

Springfield Hospital FY22 Capital Budget

	Item Description	**Justification**	**Priority**	**Replacement?**		**Cost**	
Department	**Capital Item**	**Reason for Need**	**High (H) Medium (M) Low (L)**	**Y or N**	**Any IT or physical plant costs related to this item?**	**FYE 2022**	***Further Explanation***
Inpatient	CADD pumps	Outdated, Software won't work on current pumps	H	Y	Yes-see FE	$ 35,000	IT already has software purchased but can't upload to current pumps
Inpatient	IV Pumps	IV Pumps	H				$8000-10,000 each - FYE 2030?
Pharmacy	AC Unit	Current AC unit in Sterile Compounding Anteroom unit will not pass USP 797 and thus will not pass next inspection. Excess positive pressure also needs to be addressed.	H	Y	N	$ 35,000	ESTIMATE: Quote pending on actual cost. Project being overseen by Engineering/Jim Smith.
Pharmacy	Pharmacy Delivery Vehicle	Pharmacy Delivery Vehicle to service offsite SHP and FQHC sites. We can not fulfill the obligations in the MSSA without a new vehicle.	H	Y	N	$ 35,000	Past Chapter 11 Status will not allow us to lease or finance a vehicle. Only option appears to be to purchase outright.
Nutritional Services	Convection oven	Replace exsisting stack ovens (2005)	H	Yes	200	$ 7,900	
Laboratory	BioMeriuex Blood Culture Analyzer	The analyzer is going on 13 years old; renewal contracts have an upchanrge due to its age.	H	Y	N	$ 31,876	quote includes anlayzer and software
Laboratory	Seimens EXL chemistry analyzer	These analyzers are over 9 years old; life expectency is no more than 7 years.	H	Y	N	$ 90,000	We have two instruments in-house for redundency
Laboratory	Seimens EXL chemistry analyzer	These analyzers are over 9 years old; life expectency is no more than 7 years.	H	Y	N	$ 90,000	
Diagnostic Imaging	PHILIPS EPIQ 7 Upgrade Echo	Upgrade to existing system in order to make it compatable to Cheshire (who proveds the interpretation)	H	Y	N	$ 83,477	Vizient Supply LLC GPO XR0432 US
Diagnostic Imaging	GE UPS for GE Fluoro Unit	Uninterrupted Power Supply - GE replaced all burnt boards due to power fluctuation	H	N	N	$ 80,306	Intalere VQ 10400; 80% delivery or shipment / 20% Acceptance or Installation
Diagnostic Imaging	NM Siemens Hybrid SPECT CT	Current equipment 17 years old and no longer is standard of care.	H	Y	Y	$ 825,000	Current $ amount is $725, 000 via DHMC GPO. Siemens FY closes June 30th, 2021. Architect & Physicist have been contacted; awaiting preliminary architectural proposal for contruction.
Operating Room	CAS	ours is old and will be unservicable	H	Y	N	$ 100,000	used for all total joints
Operating Room	stretchers	ours are broken in endo	H	Y	N	$ 2,000	pts at risk for injury
Operating Room	Ligausre	we need a new system, currently loaning	H	N	N	$ 25,000	used for majority of gynecology cases

***Only high priority items identified by dept. managers were included**

Total Requested by Depts.	$	**1,335,559**
Contingencies	$	**64,441**
Total Capital Budget	$	**1,400,000**

ii. FY 21 and FY 22 items are not regulatory or compliance requirements