Gifford Medical Center
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July 8, 2016

Mr. Michael Davis
Green Mountain Care Board
89 Main Street
Montpelier, VT 05620 -3101

Dear Mr. Davis,

This letter serves to provide you with a narrative summary of Gifford Medical Center's FY2017 budget. We have also provided the oath, CHNA, Schedule H documents and completed the online budget spreadsheets. Gifford Medical Center utilizes a Five Year Planning Tool that produces Profit and Loss Statements, Balance Sheets, Statistics, etc. We used this tool to help complete the budget forms. The projections for our budget are based on historical data, current experience, changes in service delivery, and ongoing operational improvements. This budget was submitted to and approved by the Gifford Medical Center Board of Trustees.

Revenue Assumptions

Utilization is driven by physicians, available services and available staff. Stable staffing, improvements of existing technology and services, and consistent management is allowing us to appropriately meet the needs of the community.

Inpatient services saw an increase during FY 2016 and we expect this to remain stable for FY 2017. With the increase in acute patients Gifford saw a reduction in Swing Bed for FY 2016, which is reflected in FY 2017.

On the Outpatient lines of business, we expect 2017 volumes to increase slightly over both budgeted and projected 2016 levels. We are projecting our outpatient surgical service to increase slightly over FY 2016 volumes. OP physical therapy is expected to have a slight increase in volume as these services have seen increase in utilization. All other outpatient lines of business are averaging little to no change from budget 2016.

Budget to budget as well as projected to budget, clinic volume will remain flat.

Our rate increase is a calculation resulting from our annual budget process and budget expectations. Volumes are determined at a detailed level. Staff calculates the expenses associated with the volume change relative to inflation, staffing, etc. Our reimbursement levels are analyzed based on history. An appropriate margin on operations and non-operating revenue levels are determined. The rate increase then becomes an exercise of projecting this year's prices plus a percent increase using next year's volume, expenses, and reimbursement levels to end up at the intended operations margin. We are implementing a 4.13% blended rate increase.

Deductions from Revenue

Affordable Care as a percentage is being reduced to .5% from 1% historically. Gifford Affordable Care is an application-driven process based on income, family size and extenuating circumstances. We endeavor to be "payer of last resort" relative to settlements, accidents, and other such matters.

Contractual Allowances are budgeted at a higher level than Budget 2016. Much of this is attributed to the reductions in Medicaid coverage and reimbursement, cost-report settlement changes, and more aggressive contracting activities by the commercial payers that we deal with.

Bad Debt as a percentage will come in at 2.4% versus 2.9% for budget FY 2016. Gifford works very closely in assisting patients receive the financial assistance they need as well as setting them up on payment plans they can afford.

Net Patient Revenue

We are within the agency's expectations relative to Net Revenue growth.

Other Operating Revenue

Annually, we eliminate all income that is not contracted and locked down. We remove all expenses and revenue from grants, "Rental" employees, and the like. We do not expect that there will be any marked change in the rental space arrangements that we have beyond inflationary. Cafeteria and Daycare revenue will increase on an inflationary basis.

Operating Expense

GMC has budgeted an increase in wages of 3.0% for both merit and market. Given that some of these monies will be directed towards market adjustments, staff will be receiving less than this (3.0%) as a salary adjustment. FTE's are increasing by 5.1in the IP and ER areas to ensure that Gifford has an appropriate staff to patient ratio. Physical Therapy is increasing by an FTE to meet utilization expectations. Benefits are increasing between 3.0 – 7.0% for our health, dental and other insurances. Supplies and contracted services increased slightly from budget 2016 due to some known increases in drug prices and IV supplies. Insurance for malpractice, liability, etc. increased slightly from budget 2016. Depreciation increases slightly due to the IP renovations which were completed in FY 2016.

Non-Operating Revenue

We are expecting $850,000 from development efforts and moderate gains in the stock market for our investments.

Gifford continues to try maintain its financial ratios at the small hospital; BBB levels. This will continue to positively affect, to some degree, our interest costs to build a reasonable level of funded depreciation, and to provide a solid base for an uncertain future. Please contact me with any questions or concerns.

Thank you.

Sincerely,

Jeff Hebert
Vice President of Finance
Gifford Medical Center
(802) 728-2356

cc: B. Whitaker, Interim CEO