Grace Cottage Hospital
FY 2017 Budget Narrative

A. Executive Summary

Grace Cottage Hospital has not budgeted for any significant program, labor or operational changes between FY2016 and FY2017.

FY2016 Projections vs Budget:

- Gross Inpatient Acute/Swing and Gross Outpatient Revenues are meeting FY2016 budget by a fraction of a percentage.
- Gross Physician Practice revenues are under budget for two reasons:
    - One full-time Clinical Social Worker position has been vacant for the entire year.
    - The establishment of patient panels for three new full-time practitioners hired near the end of FY2015.
- Other Operating Revenue slightly under budget.
- Operating Expenses, Bad Debt, and Free Care are all under budget.
- Contractual Allowances are significantly over budget, primarily as a result of higher-than-budgeted Medicaid utilization and our lack of success in negotiating a fair reimbursement level from BC/BS of Vermont as we had planned for in our FY2016 budget.

FY2017 Budget Assumptions:

- Inpatient Acute/Swing admissions budgeted at the current level.
- Outpatient and Physician Practice budgeted at current level, adjusted for trending seen in the past few months, in part due to successful outreach of expanded Community Health Team (discussed below under Health Reform Investments).
- Salary Increases: Overall increase of 2% from current, however actual increases are given at anniversary dates based on performance evaluation scores. A market adjustment for nursing salaries was done in November, 2015 in an attempt to minimize turnover and attract employees to fill positions currently covered by travelers.

Grace Cottage Hospital's greatest challenge in achieving a positive bottom line is inadequate reimbursement from two major payers: Vermont Medicaid and Blue Cross/Blue Shield of Vermont.

As indicated on the most recent 990 Schedule H, required to be submitted with our budget, Grace Cottage contributes almost two million dollars to the State of Vermont

Medicaid program. The FY2014 schedule H submitted shows a total Net Community Benefit Expense of $1,952,992. This is comprised of Vermont Medicaid paying $1,329,801 less than the actual cost of providing care (not less than gross charges, but less than actual cost) to Vermont Medicaid patients, as well as the $623,191 Grace Cottage paid in Health Care Provider Tax, for which it receives no benefit. It should also be noted that unlike all other Vermont hospitals that submit budgets to the GMCB, Grace Cottage does not receive any Disproportionate Share Payments (as a result of not meeting the obstetrical requirement).

Grace Cottage's Board and Management are working to understand what the proposed All Payer Waiver and unified ACO will mean for Grace Cottage, the delivery of primary care in our catchment area, and how it will affect our ability to continue to serve our critical role (see Community Needs Assessment) in meeting the healthcare needs of our community.

B. Health Reform Investments

Grace Cottage did not budget any specific health reform investments in the FY2016 budget. As a result of discontinuing our membership with OneCare Vermont ACO and becoming a member of CHAC the $123,000 OneCare annual participant fee that would have been in our FY2016 budget was eliminated. While our primary reason for changing ACOs was CHAC's emphasis on primary care, the elimination of the fee was an added benefit.

Grace Cottage is focusing its efforts on Primary Care and on our certification as a Patient Centered Medical Home (PCMH). Originally certified as a PCMH in 2013, we are currently working on recertification in 2017. Our core Community Health Team (CHT) through the Blueprint for Health Grant for our service area consisted of 1.90 FTEs (including RN Care Coordinator, Health Coach, Behavioral Specialist, and Diabetes Educator). In FY2016 we applied for and received from The Fanny Holt Ames & Edna Louise Holt Fund a $1.3 million 4-year grant that allowed us to more than double the size of our CHT by adding an additional 2.60 FTEs, expanding the availability of all four of the positions mentioned above. This Holt Fund grant, one of two grants, was provided to Grace Cottage so that it could demonstrate a model for the future of healthcare. The second 4-year grant provides funds for recruiting, training, and retention of providers.

C. Overall Budget to Budget Net Patient Revenue Increase

The total budgeted Net Patient Care Revenue submitted for FY2017 is a 3.6% increase over the FY2016 budget.

As described above in the Executive Summary, the Inpatient Acute/Swing utilization in the FY2017 budget is based on current levels. Outpatient and Physician Practice utilization is budgeted at current level, adjusted for trending seen in the past few months, in part due to successful outreach of the expanded Community Health Team.

Improved collection efforts, a result of implementing the use of a collection agency for the first time in Grace Cottage's history, contributes to the reduction in Bad Debt write-offs.

Medicare reimbursement is budgeted at current levels. While Medicare comes close to covering cost (although Critical Access Hospitals are supposed to receive 101% of cost, the 2% sequestration reduction, along with disallowed costs, brings that percentage to 99% or less of cost), there is still no contribution to the bottom line from Medicare patients served.

Medicaid reimbursement budgeted at current levels. As outlined in the Executive Summary, lack of reimbursement is the major factor in our on-going operating loss. This major cost shift from the State to healthcare providers results in a significant cost to the institution that prevents Grace Cottage from operating in the black. There is simply no way for a facility as small as ours to make up, from operations, a combined $2m deficit in cost reimbursement and tax assessment.

Commercial reimbursements are budgeted at current levels, including as described above, continued subpar reimbursement from BC/BS of Vermont.

D. Rate Request

Grace Cottage is again this year requesting an across-the-board rate increase of 5.25% for Hospital charges and a 4.0% increase for Physician Practice charges – for an overall weighted rate increase of 5.0%.

Due to our varying reimbursement methods this adds very little net patient revenue to the bottom line. Medicare reimburses us at 99% (or less) of cost for our hospital services and at 98% (or less) of cost for most physician services. Medicaid reimburses at far less than cost for both hospital and physician services. Commercial payers pay at either a fee schedule or a percentage of charges.

E. FY2015 Budget to actual results letter

As discussed in various areas earlier in this document, the FY2016 net patient revenue projections differ from the approved budget for the following reasons:

- Physician Practice revenue not meeting budget as a result of one full-time Clinical Social Worker position being vacant for the entire year and establishment of patient panels for three new full-time practitioners hired near the end of FY2015.
- Lower reimbursement from BC/BS of Vermont than budgeted, as a result of our unsuccessful negotiation attempts on 10/01/2015.
- Higher than budgeted Vermont Medicaid utilization, reimbursed at woefully inadequate reimbursement rates.

Helping offset some of the decreased net revenues identified above, is the positive trend of less than budgeted Bad Debt and Free Care.

F. Capital Budget Investments

The largest single investment in our FY2017 budget is $125,000 for upgrade of our Ultrasound machine. Information Technology & Services account for 35% of our total capital budget, including both equipment replacement and continued upgrades to our Electronic Health Record system.

Although we do not have any CONs planned, we do have two significant projects included in our long-term plans.

- FY2018: A major upgrade to our existing Physician Practice space. The existing space consists of two buildings, originally built as single-family residences, that eventually became the original Grace Cottage Hospital and Stratton House Nursing Home. The house that was the original hospital was built in 1844 and the other house is of similar vintage. While our practitioners do the best they can in the space that they have, the space is far from ideal to function as a physician practice, not to mention very energy inefficient, and the buildings are showing their age.
- In FY2020: Upgrade/renovation of our existing Emergency Department for increase patient privacy, improved workflow, and patient safety.

G. Technical Concerns

We do not have any technical concerns with the submission of the FY 2017 budget.