



**NARRATIVE FOR BUDGET 2018 SUBMISSION
JULY 03, 2017**

1. Executive Summary

North Country Hospital has been experiencing a decrease in utilization, and in turn has decreased its proposed FY 2018 operational budget from FY 2017 by 1.87% or \$1,518,901. The FTE budget has been decreased by 8.30 FTEs.

North Country Hospital is proposing a rate increase of 5%, which will result in net income from operations of \$1,290,421.

2. Preparation for Value-Based payment

North Country Hospital has been preparing for value-based payment as an active participant in the OneCare Vermont ACO since its inception. We have made significant investments in establishing the advanced medical home model in our primary care clinics. Over the past year, we have integrated mental health services in our medical home by contracting with our designated mental health agency, Northeast Kingdom Human Services, to add a psychiatric nurse practitioner four days per week in our Newport primary care clinic. Also over this past year, North Country Hospital founded the Upper Northeast Kingdom Community Council, a coalition of leaders from our local healthcare and social service agencies. The UNEKCC is committed to significantly improve the health and wellbeing of the people in Orleans and Northern Essex Counties and is currently evaluating projects that can address the issues identified in our Community Health Needs Assessment through a *collective action* approach.

Our FY 2018 budget includes \$680,145 of operational expenses for health care reform to include an ACO Director, ACO fees and depreciation expense on capital purchases focused on Health Care Reform.

3. Initiatives Addressing Needs Identified in Community Health Needs Assessment

North Country Hospital has been actively working to address the needs identified in our 2015 Community Health Needs Assessment. Central to our success in these initiatives has been the partnerships we have been developing with other local health and human service agencies. The table below outlines several of our current initiatives:

Community Health Needs	Initiatives
Access to Health Services	<ul style="list-style-type: none"> ✓ Implemented new primary care model to increase ability to take on more patients. ✓ Combined total new patients admitted to NC Primary Care and Pediatrics practices: 1388 new patients: ✓ NCH's Medical Home Community Care Team coordinated: <ul style="list-style-type: none"> ✓ Transportation for 66 patients to attend medical appointments <ul style="list-style-type: none"> ◆ Nursing home placement for 23 patients ◆ Hospice/Home Care for 19 patients
Access to Mental Health Resources	<ul style="list-style-type: none"> ✓ The Medical Home Community Care Team helped: <ul style="list-style-type: none"> ◆ 116 patients access Mental Health counseling ◆ Coordinate care for 59 patients to get referrals to psychiatry. ✓ Conducted WRAP (Wellness Recovery Action Plan) workshops in Newport <ul style="list-style-type: none"> ◆ 2 programs held with 22 registrants and 15 completers ✓ Conducted Chronic Disease Self-Management 6-session class at Northeast Kingdom Human Services with 10 registrants and 8 completers
Substance Abuse/Addiction Treatment	<ul style="list-style-type: none"> ✓ The Medical Home Model Community Care Team at 2 NCH Primary Care locations helped: <ul style="list-style-type: none"> ◆ 16 patients connect with inpatient addiction treatment ◆ 18 patients connect with community based drug abuse treatment ◆ 27 people connect with a Licensed Drug & Alcohol Counselor (LDAC)
Access to Dental Care and Oral Health	<ul style="list-style-type: none"> ✓ NCH partnered with Northern Counties Health Care to establish a new Dental Center in Orleans. ✓ NCH partnered with the Ronald McDonald Van to provide dental services at Albany School for Irasburg, Orleans & Albany residents. ✓ The Medical Home Community Care Team at NC Primary Care assisted 5 people with dental needs access the dental clinic.
Tobacco Cessation Initiatives	<ul style="list-style-type: none"> ✓ 1 on 1 counseling: 238 phone calls with 120 individuals (62 provider referrals and 58 self-referrals) for tobacco cessation. ✓ 6 Tobacco Cessation groups held with 30 registrants and 22 completers.

4. Hospital Approaches to Address Statewide Mental Health and Substance Abuse Needs and Care Shortages

North Country has partnered with North East Kingdom Human Services (NEKHS) to add a contracted Psychiatric Nurse Practitioner in 2017 to the existing contracted Psychiatrist who are both employed through NEKHS. These services have been embedded into our primary care clinics and work very closely with the care team of those clinics which includes social workers and case managers. We are currently evaluating tele-psychiatry services in our Emergency Room and we have included these anticipated expenses in the 2018 budget.

The mental health and substance abuse crisis has however continued to escalate in our Emergency Room which has put continued strain on those resources. Additional security coverage and law enforcement presence is required as this issue continues to grow and the placement of these patients continues to be a significant challenge. We have implemented extensive training for staff and are evaluating physical plant changes to increase safety and comfort for patients who are awaiting placement.

5. Health Reform Investments:

Over the past year, we have integrated mental health services in our medical home by contracting with our designated mental health agency, Northeast Kingdom Human Services, to add a psychiatric nurse practitioner four days per week in our Newport primary care clinic. This investment is paying significant dividends in helping coordinate care and improve management of chronic mental health conditions such as anxiety and depression. This has also provided a resource to our emergency room for patients who are awaiting placement in a specialty psychiatric facility. Our most significant investment that is related to health reform is to replace our electronic medical records system. Currently, we are operating three main electronic medical records systems: McKesson Paragon for inpatient, Medhost for the Emergency Room, and Allscripts for the outpatient physician practices. Individually, none of these systems functions particularly well and all have declined in their ranking with KLAS, the nation's leading performance rating agency for information technology vendors. Collectively, these systems present significant operational problems, as the data is maintained in three disparate databases. Functionally, it is challenging for our clinicians to have to switch between systems to access patient information. Operationally, running three different systems presents significant barriers in our quest to standardize work flows and to access information to measure performance. Improving our performance in population health requires a robust analytics capability and we believe our new integrated electronic health record platform will significantly advance our capacity in this area.

6. Overall Budget Net Patient Revenue Budget to Budget:

The net patient revenue for North Country Hospital has **decreased** 1.87% from Budget 2017 to Budget 2018. The net patient revenue decrease is a result of lower utilization, primarily in outpatient services and the discontinued Oncology program which was effective April 13, 2016 with the loss of our contracted Oncology physicians from Dartmouth Hitchcock.

Disproportionate share (DSH) payments decreased \$453,268 from budget 2017 to budget 2018 as a result in the 26.7% reduction imposed during the 2017 legislative session. There is another \$600,000 reduction in DSH revenue as indicated by DVHA in the letter received on June 28, 2017 that has not been incorporated into the 2018 budget submission. We are working with VAHHS to review the accuracy of this significant and unexpected decrease in reimbursement.

a. Significant Changes: The inpatient volumes have seen an increase from budget 2017 to budget 2018 which is being driven mainly by the Swing bed/SNF level patients. The admissions for Swing bed/SNF level patients have increased 21.20% from budget 2017 to budget 2018.

b. Cost Saving Initiatives:

In March 2016 North Country Hospital signed a contract with the New England Alliance for Health (NEAH) for supply chain group purchasing. We have built \$400k of savings into our medical supply expenses for FY2018.

As a result of a contractual change with Dartmouth, North Country was unable to continue to offer Oncology chemotherapy services effective April, 2016. There is an estimated \$2.5 million reduction in expenses related to this program.

There is a reduction of 8.30 FTEs from budget 2017 to budget 2018. These positions are currently vacant and the decision has been made not replace them.

c. Revenue assumptions by payer:

i. **Medicare** – Rate increase is applied to all charges. Inpatient Medicare is reimbursed by a per diem rate under our Critical Access Hospital reimbursement structure. Therefore, an increase in gross charges does not result in any additional net revenue. Outpatient Medicare is reimbursed by percent of charge so net revenue does increase when the gross charge increases. In regards to the assumptions we use for the net percentages, we consult our cost report preparers to provide us with an estimate as to what effect the most recent filed cost report would have on our current reimbursement rates for the budget year. Payer mix from budget 17 to budget 18 for Medicare has decreased 6.47% in total. The percent reimbursement for Medicare has remained flat.

1) Significant Changes to Prior Year Medicare Reimbursement:

There are no significant changes to Prior Year Medicare Reimbursement

2) Major Changes in FY 2017 That Were Not In the FY 2017 Budget:

There are no major changes in FY2017 that were not in the FY2017 Budget

3) Anticipated Meaningful Use and 340 B Revenue in FY 2018:

There is no revenue included in the 2018 budget for meaningful use funds.

- ii. **Medicaid** – Rate increase is applied to all charges. Inpatient Medicaid revenue is reimbursed by DRG and outpatient is reimbursed by APC or fee schedule. Therefore, an increase in gross charges does not result in any additional net revenue. The net percentage is based on the most recent percentages we have calculated at the time budget is prepared. In regards to payer mix percentage from Budget 17 to Budget 18, Medicaid’s percentage of payer mix has decreased by 3.20% in total. The reimbursement percent for Medicaid has decreased 2.97%.
- iii. **Commercial/Self pay/other** – Rate increase is applied to all charges. Inpatient and outpatient charges for these payers do have an increase in net revenue when the gross charge increases. Commercial, self-pay, and other net percentages are based on the most current reimbursement percentages we have calculated at the time budget is prepared. Commercial payer mix is flat and self-pay and other payers have decreased by 9.04%. Commercial reimbursement has increased 8.00%. (not including a \$453,268 reduction in disproportionate share payments).

7. Overall Expenditure Budget to Budget:

Total expenses have decreased budget 2017 to budget 2018 by a little over \$1 mil or 1.25%. This includes a \$2.5 mil reduction of pharmaceutical expense cost of goods as a result of the discontinuing of the Oncology program.

Inflation was not applied to physician practices. In regards to inflation estimates, salaries were increased 2.00%, benefits were increased 2.00% with healthcare benefits increasing 8%, insurances 2.00%, and all other applicable non salary by 2.00%.

8. Rate Request:

North Country Hospital is requesting a 5.00% increase to gross charges. This increase is needed to meet operating expenses and allow us to have a net operating profit margin of 1.51% to reinvest into the facility.

9. N/A

10. Capital Budget Investments

The total requested Capital Budget is \$3,512,140, of which 12% is for Information Technology improvements. The percent of capital allocated to Information Technology has decreased from the FY2017 budgeted rate of 23.14% as a result of moving to a new EHR system that is cloud based which requires less capital investment. The capital spend is being maintained at the same level as FY2017 with the reduced amounts from IT being reallocated to infrastructure capital investments.

FY2018 Significant Capital Items

Facility Infrastructure/Controls/Paving/	
Controls	\$ 359,920
Paving	\$ 223,000
Remodeling	\$ 403,166
Surgical OR Equipment	
Anesthesia Machines Replacement	\$ 151,500
C-Arm Replacement	\$ 132,761
Urology Equipment	\$ 150,000
Lab Equipment	
Genomic Instrumentation	\$ 100,000
EKG Systems and machine	\$ 157,000
Diagnostic Imaging	
PACS replacement	\$ 300,000
IT	\$ 422,130
Contingency	\$ 450,000

a) There are no new anticipated major investments (capital) for FY2019 – FY2021 other than equipment replacement. There is one significant replacement item for FY2019, lab instrumentation replacement of \$950k.

b) There is no Certificate of Need to be approved for FY2018

11. Technical Concerns:

North Country Hospital does not have any technical concerns with the Adaptive planning site and budget submission process at this time.