

Grace Cottage Hospital

Fiscal Year 2018 Budget Analysis

Report Date: 8/9/2017

QUESTIONS

1. Describe your hospital corporate structure and how the hospital manages and works with related entities. Describe the hospital's historical mission and culture.
2. Income Statement--The hospital is \$556 thousand, 2.9% **under** the 2017 budget levels. This decrease is primarily related to reductions in utilization. Describe the changes in utilization the hospital is experiencing.
3. Rate & NPR--Grace has an overall rate/price request of 5.0%. Grace states the overall net revenue change is smaller since they only realize a small percentage of reimbursement as prices change. Explain the strategies and considerations the hospital must weigh in pricing services.
4. Dashboard--Bad debt and free care as a percent of gross revenues are higher than the VT median. Discuss the assumptions for budgeting higher (unfavorable) for bad debt and free care in 2018. Is it related to changes expected at the federal level?
5. NPR Payer--Medicaid shows unfavorable reimbursement from 2017 to 2018 budget. Describe the reimbursement assumptions.
6. Dashboard - The hospital budget, while declining in NPR growth, still shows unfavorable productivity and a 8.7% cost per adjusted admission increase. Further, operating expenses are high compared to other peers. Discuss these measures and the strategies the hospital considers when preparing the budget.
7. Income Statement--Retail pharmacy (340B) of \$670,199 is in operating revenue. Describe this program and the risks operating the program.
8. Util. & Staff--The hospital explains changes in their reliance on agency/traveler staff which is a savings. Discuss the costs related to hiring travelers.
9. Income Statement--Are the 2017 projections still valid? If not, please describe material changes?

10. Refer to the Act 53 price and quality data schedules that were included in the presentation of FY 2018 Hospital Budget Submissions-Preliminary Review on July 27, 2017 and be prepared to address questions the Board may have concerning that information.
11. In the March 31 GMCB hospital guidance, the Board allowed up to 0.4% for **new** health care reform. The Board directed each hospital to provide a detailed description of each new health care reform activity, investment or initiative included within the designated 0.4%, provide any available data or evidence-based support for the activity's effectiveness or value, and identify the benchmark or measure by which the hospital can determine that the activity reduces costs, improves health, and/or increases Vermonters' access to health care. With this in mind, please describe how you are investing for new health care reform activities in the four approved areas:
 - Support for Accountable Care Organization (ACO) infrastructure or ACO programs;
 - Support of community infrastructure related to ACO programs;
 - Building capacity for, or implementation of, population health improvement activities identified in the Community Health Needs Assessment, with a preference for those activities connected with the population health measures outlined in the All-payer Model Agreement;
 - Support for programs designed to achieve the population health measures outlined in the All-payer Model Agreement.
12. Please identify which ACO(s) you will have a contractual relationship with in 2018. If your hospital plans (or already is) in a risk-bearing contract with OneCare, please explain the effect of the risk on your financial statements. Please explain specific strategies your hospital is developing to move toward population-based payment reform. Finally, what tools does your hospital employ to ensure appropriate, cost effective, quality care when working with providers outside the CHAC or OneCare network?

| Fiscal Year 2018 Budget Analysis | | | | | | Grace Cottage Hospital | | |
|---|--------------------|--------------------|-------------------|--------------------|-------------------|------------------------|---------------|-------------------|
| INCOME STATEMENT | FY2015A | FY2016A | FY2017B | FY2017P | FY2018B | 2017B - 2018B | 2017B - 2018B | 3YR CAGR |
| | | | | | | \$ Chg | % Chg | (FY2015A-FY2018B) |
| Revenues | | | | | | | | |
| Gross Patient Care Revenue | 22,650,537 | 25,833,339 | 28,407,778 | 25,638,473 | 27,607,149 | (800,629) | -2.8% | |
| Disproportionate Share Payments | 0 | 0 | 0 | 0 | 0 | 0 | #DIV/0! | |
| Bad Debt | (525,606) | (406,558) | (476,230) | (683,029) | (748,260) | (272,030) | 57.1% | |
| Free Care | (196,472) | (126,612) | (194,628) | (91,812) | (101,466) | 93,162 | -47.9% | |
| Deductions from Revenue | (5,889,693) | (8,058,460) | (8,531,417) | (7,529,268) | (8,108,349) | 423,068 | -5.0% | |
| Graduate Medical Education | 0 | 0 | 0 | 0 | 0 | 0 | #DIV/0! | |
| Net Patient Care Revenue | 16,038,766 | 17,241,709 | 19,205,503 | 17,334,364 | 18,649,074 | (556,429) | -2.9% | 5.2% |
| Other Operating Revenue | 920,058 | 871,069 | 1,186,377 | 1,148,549 | 1,247,133 | 60,756 | 5.1% | |
| Total Operating Revenue | 16,958,824 | 18,112,778 | 20,391,880 | 18,482,913 | 19,896,207 | (495,673) | -2.4% | |
| Expenses | | | | | | | | |
| Salaries Non MD | 7,907,721 | 8,455,100 | 8,932,279 | 8,605,242 | 9,377,560 | 445,281 | 5.0% | |
| Fringe Benefits Non MD | 2,326,337 | 2,644,288 | 3,044,319 | 2,696,776 | 3,084,330 | 40,011 | 1.3% | |
| Physician Fees Salaries Contracts & Fringes | 2,385,546 | 2,704,137 | 2,697,664 | 2,638,025 | 2,622,930 | (74,734) | -2.8% | |
| Health Care Provider Tax | 536,205 | 621,491 | 618,577 | 654,065 | 659,052 | 40,475 | 6.5% | |
| Depreciation Amortization | 1,134,712 | 705,748 | 656,184 | 607,252 | 644,540 | (11,644) | -1.8% | |
| Interest - Long Term | 139,854 | 150,863 | 143,906 | 126,460 | 125,817 | (18,089) | -12.6% | |
| Other Operating Expense | 4,184,039 | 4,278,775 | 4,498,373 | 4,380,038 | 3,972,003 | (526,370) | -11.7% | |
| Total Operating Expense | 18,614,414 | 19,560,402 | 20,591,302 | 19,707,858 | 20,486,232 | (105,070) | -0.5% | 3.2% |
| Net Operating Income (Loss) | (1,655,590) | (1,447,624) | (199,422) | (1,224,945) | (590,025) | (390,603) | 195.9% | |
| Non-Operating Revenue | 943,756 | 1,052,582 | 743,534 | 972,006 | 737,258 | (6,276) | -0.8% | |
| Excess (Deficit) of Rev Over Exp | (711,834) | (395,042) | 544,112 | (252,939) | 147,233 | (396,879) | -72.9% | |
| Operating Margin% | -9.8% | -8.0% | -1.0% | -6.6% | -3.0% | | | |
| Total Margin % | -4.0% | -2.1% | 2.6% | -1.3% | 0.7% | | | |
| Cost per Adjusted Admission | 7,514 | 7,367 | 7,552 | 8,084 | 8,212 | 659 | 8.7% | |

The NPR **decrease** of \$556 thousand is 2.9% **under** the 2017 budget. This is about \$1.1 million **under** the 3% cap target. Much of the decrease is due to lower utilization in outpatient and provider practices as explained in their narrative.

The hospital's expenses are decreasing 0.5%, primarily due to the decrease in variable costs associated with utilization and cost savings from their reduction of travelers. The cost per adjusted admission will increase 8.7%.

The operating surplus is supported by 340 B pharmacy revenues of over \$670,000. Non operating revenues are the hospital's community contributions of \$737,000 and will help to provide a total surplus of 0.7% on net revenues.

Fiscal Year 2018 Budget Analysis **Grace Cottage Hospital**

| NET PAYER REVENUE CHANGE - PAYERS | | | | 2017B - 2018B | 2017B - 2018B | % | Change due to Rate | Change due to Non-Rate Items |
|--|--|---------------------|---------------------|---------------------|--------------------|----------------|--------------------|------------------------------|
| | FY2017B | FY2017P | FY2018B | \$ Chg | Chg | | | |
| All Payers | Inpatient Care Revenue, Outpatient Care Revenue | \$28,407,778 | \$25,638,473 | \$27,607,149 | (\$800,629) | -2.8% | | |
| | Allowances, Discounts, Allowances, Discounts | (\$8,531,417) | (\$7,529,268) | (\$8,108,349) | \$423,068 | -5.0% | | |
| | Bad Debt, Bad Debt | (\$476,230) | (\$683,029) | (\$748,260) | (\$272,030) | 57.1% | | |
| | Free Care, Free Care | (\$194,628) | (\$91,812) | (\$101,466) | \$93,162 | -47.9% | | |
| | Graduate Medical Education Payments | \$0 | \$0 | \$0 | \$0 | #DIV/0! | | |
| | Disproportionate Share Payments | \$0 | \$0 | \$0 | \$0 | #DIV/0! | | |
| | Net Payer Revenue | \$19,205,503 | \$17,334,364 | \$18,649,074 | (\$556,429) | -2.9% | \$355,666 | (\$912,095) |
| Commercial | Gross Revenue | \$8,515,247 | \$7,879,025 | \$8,552,351 | \$37,104 | 0.4% | | |
| | Contractual Allowances | (\$2,558,442) | (\$2,508,964) | (\$2,691,681) | (\$133,239) | 5.2% | | |
| | Bad Debt | (\$476,230) | (\$683,029) | (\$748,260) | (\$272,030) | 57.1% | | |
| | Free Care | (\$194,628) | (\$91,812) | (\$101,466) | \$93,162 | -47.9% | | |
| | Graduate Medical Education Payments | \$0 | \$0 | \$0 | \$0 | #DIV/0! | | |
| | Net Payer Revenue | \$5,285,947 | \$4,595,220 | \$5,010,944 | (\$275,003) | -5.2% | \$232,587 | (\$507,590) |
| Medicaid | Gross Revenue | \$5,009,268 | \$3,745,814 | \$4,045,060 | (\$964,208) | -19.2% | | |
| | Contractual Allowances | (\$2,940,979) | (\$2,303,349) | (\$2,480,757) | \$460,222 | -15.6% | | |
| | Bad Debt | \$0 | \$0 | \$0 | \$0 | #DIV/0! | | |
| | Free Care | \$0 | \$0 | \$0 | \$0 | #DIV/0! | | |
| | Graduate Medical Education Payments | \$0 | \$0 | \$0 | \$0 | #DIV/0! | | |
| | Net Payer Revenue | \$2,068,289 | \$1,442,465 | \$1,564,303 | (\$503,986) | -24.4% | \$0 | (\$503,986) |
| Medicare | Gross Revenue | \$14,883,263 | \$14,013,634 | \$15,009,738 | \$126,475 | 0.8% | | |
| | Contractual Allowances | (\$3,031,996) | (\$2,716,955) | (\$2,935,911) | \$96,085 | -3.2% | | |
| | Bad Debt | \$0 | \$0 | \$0 | \$0 | #DIV/0! | | |
| | Free Care | \$0 | \$0 | \$0 | \$0 | #DIV/0! | | |
| | Graduate Medical Education Payments | \$0 | \$0 | \$0 | \$0 | #DIV/0! | | |
| | Net Payer Revenue | \$11,851,267 | \$11,296,679 | \$12,073,827 | \$222,560 | 1.9% | \$123,079 | \$99,481 |
| Disproportionate Share Payments | | \$0 | \$0 | \$0 | \$0 | #DIV/0! | | |
| | Net Payer Revenue | \$0 | \$0 | \$0 | \$0 | #DIV/0! | \$0 | (\$0) |
| | Net to Gross Commercial (no dsh) | 62.1% | 58.3% | 58.6% | | | | |
| | Net to Gross Medicaid (no dsh) | 41.3% | 38.5% | 38.7% | | | | |
| | Net to Gross Medicare (no dsh) | 79.6% | 80.6% | 80.4% | | | | |
| | Net to Gross All (no dsh) | 67.6% | 67.6% | 67.6% | | | | |

The NPR decrease is primarily due to decreases in Commercial and Medicaid. The decrease in utilization is in both Medicaid and commercial payers. Commercial and Medicaid also show much less favorable reimbursement. Medicare shows more favorable reimbursement than was budgeted in 2017. The hospital needs to explain the changes in utilization. The hospital does not receive disproportionate share.

Grace Cottage Hospital

RATE AND NET PATIENT REVENUE INCREASE

Rate is the average change in price for services provided.

| | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|--|---------|---------|---------|---------|---------|
| Weighted Average Approved Rate (all hospitals) | 5.16% | 6.82% | 4.37% | 1.75% | |
| Weighted Average Submitted Rate (all hospitals) | 5.45% | 6.82% | 4.40% | 2.17% | 2.38% |
| | | | | | |
| Grace Cottage Hospital Approved Rate | 6.00% | 5.00% | 5.00% | 5.00% | |
| Grace Cottage Hospital Submitted Rate | 6.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| Hospital Inpatient Gross Revenue | | | | | 5.3% |
| Hospital Outpatient Gross Revenue | | | | | 5.3% |
| Physician Outpatient Gross Revenue | | | | | 4.0% |
| Chronic/SNF Gross Revenue | | | | | 0.0% |
| Swing Gross Revenue | | | | | 5.3% |

| Net Patient Revenue Change Due to Rate Request | | |
|---|------------------------|-------------------|
| | Commercial | \$ 232,587 |
| | Medicaid | \$ - |
| | Medicare | \$ 123,079 |
| | Disproportionate Share | \$ 0 |
| Total Change Due to Rate Request | | \$ 355,666 |

| | |
|-------------------------|------------------|
| Value of 1% Rate | \$ 71,133 |
|-------------------------|------------------|

Grace has a rate/price request of 5.0%. The rate is the same as seen in the last few years, 5.25% will be for hospital charges and 4.0% will be to increase physician practice charges.

The 5% will result in increased NPR of about \$356 thousand.

For Grace, every 1% increase in rate is worth about \$71 thousand in net patient revenue.

Fiscal Year 2018 Budget A **Grace Cottage Hospital**

BUDGET TO BUDGET VARIANCES EXPLAINED

| Income Statement | FY2018B | 2017B - 2018B \$ Chg | 2017B - 2018B % Chg | Rate | Rate Effect of Act 16 Decis | Utilization | Util/Reimb/ Payer Mix | Bad Debt/Free Care Changes | Physician Trans/Acq | DSH Changes | Health Reform Investments | Other | Explained Variance Total |
|-------------------------------------|-------------------|-------------------------|---------------------------|----------------|--------------------------------|------------------|--------------------------|-------------------------------|------------------------|-------------|------------------------------|-------|-----------------------------|
| Revenues | | | | | | | | | | | | | |
| Gross Patient Care Revenue | 27,607,149 | (800,629) | -2.8% | | | | | | | | | | |
| Disproportionate Share Payments | 0 | 0 | | | | | | | | | | | |
| Bad Debt | (748,260) | (272,030) | | | | | | | | | | | |
| Free Care | (101,466) | 93,162 | | | | | | | | | | | |
| Deductions from Revenue | (8,108,349) | 423,068 | | | | | | | | | | | |
| Graduate Medical Education | 0 | 0 | | | | | | | | | | | |
| Net Patient Care Revenue - / | 18,649,074 | (556,429) | -2.9% | 355,666 | | (733,227) | | (178,868) | | | | | (556,429) |
| Other Operating Revenue | 1,247,133 | 60,756 | | | | | | | | | | | |
| Total Operating Revenue | 19,896,207 | (495,673) | | | | | | | | | | | |
| Operating Expenses | | | | | | | | | | | | | |
| Salaries Non MD | 9,377,560 | 445,281 | | | | | | | | | | | |
| Fringe Benefits Non MD | 3,084,330 | 40,011 | | | | | | | | | | | |
| Fringe Benefits MD | 477,745 | 33,861 | | | | | | | | | | | |
| Physician Fees Salaries | | | | | | | | | | | | | |
| Contracts & Fringes | 2,145,185 | (108,595) | | | | | | | | | | | |
| Health Care Provider Tax | 659,052 | 40,475 | | | | | | | | | | | |
| Depreciation Amortization | 644,540 | (11,644) | | | | | | | | | | | |
| Interest - Long Term | 125,817 | (18,089) | | | | | | | | | | | |
| Other Operating Expense | 3,972,003 | (526,370) | | | | | | | | | | | |
| Operating Expense | 20,486,232 | (105,070) | -0.5% | | | | | | | | | | - |
| Net Operating Income (Loss) | (590,025) | (390,603) | 195.9% | | | | | | | | | | |
| Non-Operating Revenue | 737,258 | (6,276) | | | | | | | | | | | |
| Over Expense | 147,233 | (396,879) | | | | | | | | | | | |

Utilization decreases explain most of the change in the lower NPR. However, the slightly higher unit cost increase and unfavorable productivity measures suggest that costs are increasing for other than variable costs related to utilization or that the hospitals costs are largely fixed. Some of this is explained by the provider tax increase and the compensation expenses.

Unfavorable changes related to bad debt and free care are also affecting their NPR.

The hospital has not budgeted any new Health Reform investments; see the narrative.

| Fiscal Year 2018 Budget Analysis | Grace Cottage Hospital | | | | | Vermont Peers | | | 2017 Almanac of Hospital Financial and Operating Indicators (Optum) FY2015 | | | | |
|---|------------------------|------------|------------|------------|------------|----------------------|----------------------|----------------------|--|---------------|------------|--------------|--------------------|
| | FY2015A | FY2016A | FY2017B | FY2017P | FY2018B | FY2018B Vermont 25th | FY2018B Vermont 50th | FY2018B Vermont 75th | Northeast Region | Northeast CAH | 25-99 beds | 100-199 beds | Teaching Hospitals |
| DASHBOARD | | | | | | | | | | | | | |
| Net Patient Care Revenue | 16,038,766 | 17,241,709 | 19,205,503 | 17,334,364 | 18,649,074 | | | | | | | | |
| Budget to Budget NPR Growth Rate | | | | | -2.9% | 1.8% | 3.5% | 4.5% | | | | | |
| Three Year NPR CAGR (FY14A - FY17B) | | | | | 7.3% | 2.2% | 3.5% | 4.1% | | | | | |
| Operating Expense | 18,614,414 | 19,560,402 | 20,591,302 | 19,707,858 | 20,486,232 | | | | | | | | |
| Budget to Budget Oper Exp Growth Rate | | | | | -1% | 1.8% | 4.2% | 4.6% | | | | | |
| Three Year OE CAGR (FY14A - FY17B) | | | | | 5.6% | 3.0% | 3.8% | 5.2% | | | | | |
| Revenue | | | | | | | | | | | | | |
| Operating Margin % | -9.8% | -8.0% | -1.0% | -6.6% | -3.0% | 0.7% | 1.7% | 2.2% | 1.4% | | 1.4% | 3.9% | 3.3% |
| Total Margin % | -4.0% | -2.1% | 2.6% | -1.3% | 0.7% | 1.8% | 2.8% | 3.7% | 1.7% | -0.6% | 1.7% | 6.2% | 4.2% |
| Bad Debt % | 2.3% | 1.6% | 1.7% | 2.7% | 2.7% | 1.0% | 1.6% | 2.5% | 1.6% | 5.0% | 1.6% | 6.2% | 3.7% |
| Free Care % | 0.9% | 0.5% | 0.7% | 0.4% | 0.4% | 0.6% | 0.8% | 1.1% | 0.4% | | 0.4% | | |
| Cost | | | | | | | | | | | | | |
| Cost per Adjusted Admission | 7,514 | 7,367 | 7,552 | 8,084 | 8,212 | 8,988 | 10,994 | 12,687 | 5,272 | | 5,272 | 7,604 | 7,822 |
| Overhead Expense w/ fringe, as a % of Total Operating Exp | 34.3% | 32.2% | 33.2% | 32.0% | 32.8% | 22.2% | 26.8% | 32.0% | | | | | |
| Productivity & Utilization | | | | | | | | | | | | | |
| Acute Admissions | 130 | 131 | 142 | 120 | 120 | 1,363 | 1,764 | 3,199 | | | | | |
| Adjusted Admissions | 2,477 | 2,655 | 2,727 | 2,438 | 2,495 | 6,360 | 8,282 | 15,598 | | | | | |
| FTEs Per Adjusted Occupied Bed | 6.3 | 6.8 | 6.4 | 6.5 | 6.7 | 5.4 | 5.9 | 6.7 | 2.9 | | 2.9 | 3.2 | 3.2 |
| FTEs per 100 Adj Discharges | 5.3 | 5.1 | 5.2 | 5.6 | 5.7 | 5.0 | 5.9 | 6.9 | 2.5 | | 2.5 | | |
| Cash | | | | | | | | | | | | | |
| Days Cash on Hand | 76.1 | 78.2 | 76.7 | 80.9 | 75.8 | 90.4 | 136.6 | 192.3 | 24.2 | 114.9 | 24.2 | | 116.3 |
| Capital | | | | | | | | | | | | | |
| Age of Plant | 10.4 | 17.8 | 20.1 | 21.6 | 21.4 | 12.1 | 12.7 | 14.5 | 2.4 | 12.4 | 2.4 | 12.4 | 11.2 |
| Long Term Debt to Capitalization | 29.0% | 25.8% | 27.0% | 34.1% | 29.9% | 20% | 24% | 29% | 5.5% | 22.8% | 5.5% | | 35.3% |
| Capital Expenditures to Depreciation | 83.5% | 75.7% | 135.3% | 126.0% | 166.6% | 104% | 123% | 160% | 41% | | 41% | | |
| Rates Approved | | | | | | | | | | | | | |
| Approved Rate per Latest Order | 5.0% | 5.0% | 5.0% | 5.0% | 0.0% | | | | | | | | |
| CAGR = Compounded Annual Growth Rate | | | | | | | | | | | | | |

UTILIZATION & STAFFING FY2015A FY2016A FY2017B FY2017P FY2018B ~~2017B-~~
~~2018B~~

UTILIZATION

| | | | | | | |
|--|--------|--------|--------|--------|--------|--------|
| Adjusted Admissions | 2,477 | 2,655 | 2,727 | 2,438 | 2,495 | -8.5% |
| Acute Admissions | 130 | 131 | 142 | 120 | 120 | -15.5% |
| Acute Average Length Of Stay | 3.1 | 2.7 | 2.9 | 3.1 | 3.1 | 6.9% |
| All Operating Room Procedure Tests | 0 | 0 | 0 | 0 | 0 | 0.0% |
| Emergency Room Visits | 56,945 | 58,289 | 63,123 | 52,596 | 54,940 | -13.0% |
| Cat Scan, Radiology - Diagnostic Exams | 2,736 | 2,892 | 3,006 | 2,712 | 2,712 | -9.8% |
| Physician Office Visits | 4,012 | 4,144 | 4,468 | 3,971 | 4,332 | -3.0% |
| | 0 | 0 | 0 | 0 | 0 | 0.0% |
| | 17,948 | 19,397 | 22,477 | 19,717 | 20,691 | -7.9% |

| | | | | | | |
|-------------------------|-----|-----|-----|-----|-----|----|
| Non-MD FTEs | 131 | 136 | 140 | 136 | 142 | 2 |
| Travelers, Travelers MD | 4 | 4 | 3 | 6 | 0 | -3 |
| Residents & Fellows | 0 | 0 | 0 | 0 | 0 | 0 |
| MLPs | 0 | 0 | 0 | 0 | 0 | 0 |
| Physician FTEs | 9 | 10 | 10 | 9 | 9 | -1 |
| | 144 | 149 | 153 | 151 | 151 | -2 |

| | | | | | | |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|-------|
| Salary per FTE Non-MD | \$ 60,148 | \$ 62,147 | \$ 63,589 | \$ 63,181 | \$ 65,997 | 3.8% |
| Salary & Benefits per FTE - Non-MD | \$ 77,843 | \$ 81,583 | \$ 85,261 | \$ 82,981 | \$ 87,704 | 2.9% |
| FTEs Per Adjusted Occupied Bed | 6.3 | 6.8 | 6.4 | 6.5 | 6.7 | 3.4% |
| FTEs per 100 Adj Discharges | 5.3 | 5.1 | 5.2 | 5.6 | 5.7 | 10.6% |

Comparative Benchmarks

Vermont System Averages

| | | | | | | |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|-------|
| Salary & Benefits per FTE - Non-MD | \$ 80,704 | \$ 81,921 | \$ 83,669 | \$ 85,414 | \$ 85,010 | 1.6% |
| FTEs Per Adjusted Occupied Bed | 5.7 | 5.7 | 6.1 | 5.9 | 6.0 | -1.4% |
| FTEs per 100 Adj Discharges | 7.2 | 7.0 | 7.5 | 7.5 | 7.7 | 2.3% |

Overall utilization as measured by adjusted admissions shows a large reduction but little change over current year projections.

Acute admissions, ER and physician visits are decreasing, presumably related to reduced physician practice volumes (see narrative). More discussion and understanding is needed about the patients and their utilization.

The productivity measures and cost per unit are moving unfavorably. However, compared to Vermont's Critical Access hospitals, the hospital is below the median (favorable).

The hospital is reducing its reliance on travelers as stated in their narrative. Grace should explain.

Salary and fringe costs are budgeted one of the highest in the state, related to their small size.

The system Salary per FTE is \$66,001 and is 3.3% higher than

| Fiscal Year 2018 Budget Analysis | Grace Cottage Hospital | | | | |
|----------------------------------|------------------------|--|--|--|--|
|----------------------------------|------------------------|--|--|--|--|

| BALANCE SHEET | FY2015A | FY2016A | FY2017B | FY2017P | FY2018B |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Cash & Investments | \$ 195,899 | \$ 237,043 | \$ 261,660 | \$ 352,815 | \$ 359,871 |
| Other Current Assets | 4,165,169 | 4,054,996 | 3,958,937 | 3,635,231 | 3,541,382 |
| Current Assets | 4,361,068 | 4,292,039 | 4,220,597 | 3,988,046 | 3,901,253 |
| Board Designated Assets | 3,537,806 | 3,887,683 | 4,010,101 | 3,959,656 | 3,833,245 |
| Net, Property, Plant And Equipment | 3,658,528 | 3,453,925 | 3,756,642 | 3,140,217 | 3,569,593 |
| Other Long-Term Assets | - | - | - | - | - |
| Assets | \$ 11,557,402 | \$ 11,633,647 | \$ 11,987,340 | \$ 11,087,919 | \$ 11,304,091 |
| Current Liabilities | \$ 3,352,552 | \$ 4,397,878 | \$ 3,139,831 | \$ 3,239,657 | \$ 3,661,354 |
| Long Term Liabilities | 2,282,126 | 1,719,623 | 2,285,054 | 2,585,055 | 2,232,297 |
| Other Noncurrent Liabilities | - | - | - | - | - |
| Fund Balance | 5,922,724 | 5,516,146 | 6,562,455 | 5,263,207 | 5,410,440 |
| Liabilities and Equities | \$ 11,557,402 | \$ 11,633,647 | \$ 11,987,340 | \$ 11,087,919 | \$ 11,304,091 |

| Grace Cottage Hospital | | | | | |
|----------------------------------|-------|-------|-------|-------|-------|
| Days Cash on Hand | 76.1 | 78.2 | 76.7 | 80.9 | 75.8 |
| Long Term Debt to Capitalization | 29.0% | 25.8% | 27.0% | 34.1% | 29.9% |
| Debt Service Coverage Ratio | (1.3) | (1.2) | 0.8 | (0.6) | 0.2 |

| Comparative Benchmarks | | | | | |
|----------------------------------|--------|--------|--------|--------|--------|
| Vermont System Averages | | | | | |
| Days Cash on Hand | 178.53 | 183.26 | 165.81 | 186.20 | 166.60 |
| Long Term Debt to Capitalization | 27.6% | 30.5% | 29.6% | 31.1% | 29.5% |
| Debt Service Coverage Ratio | (1.3) | (1.2) | 0.8 | (0.6) | 0.2 |

| U.S. Benchmarks | | | | | |
|--|--------|------|------|------|------|
| Northeast CAH | | | | | |
| Days Cash on Hand-Peers | 114.90 | 0.00 | 0.00 | 0.00 | 0.00 |
| Long Term Debt to Capitalization-Peers | 22.8% | 0.00 | 0.00 | 0.00 | 0.00 |
| Debt Service Coverage Ratio-Peers | 1.60 | 0.00 | 0.00 | 0.00 | 0.00 |

Overall cash on hand is steady and is lower than the state median.

Compared to Vermont's Critical Access hospitals, Grace's cash on hand is the lowest.

Board designated assets are comparable to recent years. Long term debt is also steady and compares favorable with the VT peers. The fund balance shows a decrease from 2017 budgeted levels.

| CAPITAL BUDGET | 2014A | FY2015A | FY2016A | FY2017B | FY2017P | FY2018B | 2019 Plan | 2020 Plan | 2021 Plan |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|-------------------|---------------------|---------------------|
| Non-Certificate of Need Capital Plans Total | \$ 173,772 | \$ 947,065 | \$ 534,575 | \$ 887,520 | \$ 765,167 | \$ 1,073,916 | \$ 934,180 | \$ 2,986,849 | \$ 1,264,932 |
| Certificate of Need Capital Plans | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Total Capital Purchases | \$ 173,772 | \$ 947,065 | \$ 534,575 | \$ 887,520 | \$ 765,167 | \$ 1,073,916 | \$ 934,180 | \$ 2,986,849 | \$ 1,264,932 |

Grace Cottage Hospital

| | | | | | | |
|--------------------------------------|-------|-------|-------|--------|--------|--------|
| Age of Plant | 7.7 | 10.4 | 17.8 | 20.1 | 21.6 | 21.4 |
| Capital Expenditures to Depreciation | 12.5% | 83.5% | 75.7% | 135.3% | 126.0% | 166.6% |
| Capital Cost % of Total Expense | 8.3% | 6.8% | 4.4% | 3.9% | 3.7% | 3.8% |

Comparative Benchmarks

Vermont System Averages

| | | | | | | |
|--------------------------------------|-------|-------|--------|--------|--------|--------|
| Age of Plant | 10.2 | 11.4 | 11.8 | 12.3 | 12.4 | 12.9 |
| Capital Expenditures to Depreciation | 80.6% | 97.1% | 101.7% | 128.2% | 135.7% | 115.3% |
| Capital Cost % of Total Expense | 5.9% | 5.4% | 5.2% | 5.3% | 5.1% | 5.3% |

U.S. Benchmarks

Northeast Critical Access Hospital

| | | | | | | |
|--|------|------|---|---|---|---|
| Age of Plant-Peers | 11.3 | 12.4 | - | - | - | - |
| Capital Expenditures to Depreciation-Peers | - | - | - | - | - | - |
| Capital Cost % of Total Expense-Peers | 5.8% | 4.5% | - | - | - | - |

The overall capital budget of \$1.1 million is higher than the spending in recent years as the age of plant has been trending higher and is higher (unfavorable) than the Vermont median. Capital cost as % of the budget reflect favorable peer comparison values.

As described in the narrative, there are no single investments over \$500 thousand for 2018 but they are looking to add a population health module to their EHR system. The narrative describes that even though there are no CONs planned for the period 2019-21 they have future projects in their long-term plans for ER and physician practice upgrades.