

Rutland Regional Medical Center

*Fiscal Year 2018
Operating Budget & Capital Planning*



Rutland Regional Medical Center
An Affiliate of Rutland Regional Health Services



Key Take-Aways

- ❑ Based on submitted reimbursement assumption we comply with the 3.4% Net Revenue Cap set by Green Mountain Care Board and support the .4% of Healthcare Reform activities
- ❑ If we include the changes in reimbursement that we now know to be approximately \$1.2 million our budget to budget net revenue growth is reduced to 2.9%.
- ❑ Need rate increase of 4.9% after three decreases in rates
 - ✓ With the reduced reimbursement now known and to continue to achieve a 3.4% Budget to Budget Net Revenue growth we would need to raise our rates by another 1%, which would result is a 5.9% rate increase



Payment Reform

- ☐ Not in two-sided risk for 2018
 - CHCRR
 - CHAC
- ☐ Will work towards for 2019



Budget Summary

Rutland Regional Medical Center
Budget Year FY18
Statement of Revenue and Expense

	FY16 Actual	FY17 Budget	FY17 Projection	FY18 Budget	Percentage of Change		
					Actual to Projection	Budget to Budget to	Projection to Budget
OPERATING REVENUE							
Patient Service Revenue	\$ 528,854,315	\$ 500,916,338	\$ 510,427,416	\$ 530,938,307	-3.48%	5.99%	4.02%
Total Deductions	\$ (277,582,499)	\$ (253,028,950)	\$ (259,915,041)	\$ (272,539,164)	-6.36%	7.71%	4.86%
Provision for Free Care	\$ (5,838,729)	\$ (3,569,908)	\$ (5,885,228)	\$ (6,121,719)	0.80%	71.48%	4.02%
Provision for Bad Debt	\$ (4,183,690)	\$ (6,626,902)	\$ (5,104,274)	\$ (5,309,383)	22.00%	-19.88%	4.02%
Provision for Medicaid DPS Payments	\$4,573,554	\$5,724,870	\$5,724,870	\$4,579,237	25.17%	-20.01%	-20.01%
Net Patient Service Revenue	\$ 245,822,952	\$ 243,415,448	\$ 245,247,743	\$ 251,547,278	-0.23%	3.34%	2.57%
Other Operating Revenue	\$ 8,598,283	\$ 11,017,731	\$ 11,959,805	\$ 12,290,310	39.10%	11.55%	2.76%
Total Operating Revenue	\$ 254,421,235	\$ 254,433,179	\$ 257,207,548	\$ 263,837,589	1.10%	3.70%	2.58%
OPERATING EXPENSES							
Total Payments to Physician	\$ 32,735,536	\$ 33,356,022	\$ 33,858,442	\$ 35,060,044	3.43%	5.11%	3.55%
Total Nursing Inpatient	\$ 16,682,214	\$ 17,622,565	\$ 17,622,565	\$ 17,608,073	5.64%	-0.08%	-0.08%
Total Ancillary Patient Care Services	\$ 36,284,890	\$ 37,783,258	\$ 37,991,897	\$ 39,633,937	4.70%	4.90%	4.32%
Total Support Services	\$ 22,744,255	\$ 23,836,737	\$ 23,854,133	\$ 25,283,204	4.88%	6.07%	5.99%
Total Salaries Excluding Physicians	\$ 75,711,359	\$ 79,242,560	\$ 79,468,595	\$ 82,525,214	4.96%	4.14%	3.85%
Supplies Expense	\$ 73,291,583	\$ 71,601,232	\$ 75,282,973	\$ 76,547,685	2.72%	6.91%	1.68%
Admin & General Expense	\$ 31,782,437	\$ 34,638,421	\$ 32,204,987	\$ 33,956,237	1.33%	-1.97%	5.44%
CHCRR Subsidy	\$ 669,908	\$ 226,510	\$ 226,510	\$ 233,306	-66.19%	3.00%	3.00%
Medicaid DPS Tax Assessment	\$ 14,052,304	\$ 14,352,823	\$ 14,740,749	\$ 14,810,108	4.90%	3.19%	0.47%
Depreciation Expense	\$ 13,596,263	\$ 13,161,688	\$ 12,996,477	\$ 12,728,164	-4.41%	-3.29%	-2.06%
Interest & Other Bond Expense	\$ 1,803,469	\$ 1,749,035	\$ 1,517,751	\$ 1,688,565	-15.84%	-3.46%	11.25%
Total Operating Expense	\$ 243,642,860	\$ 248,328,291	\$ 250,296,484	\$ 257,549,323	2.73%	3.71%	2.90%
INCOME FROM OPERATIONS							
Total Non Operating Revenue	\$ 11,380,795	\$ 7,136,913	\$ 9,635,893	\$ 8,794,172	-15.33%	23.22%	-8.74%
Excess Revenue Over Expenses	\$ 22,159,170	\$ 13,241,801	\$ 16,546,957	\$ 15,082,438	-25.33%	13.90%	-8.85%



High-level Glance

☐ Overall Volume flat from 2017 Projection

- Budget to budget increase in patient days due to length of stay

☐ 4.9% rate increase to get a Net Patient Service Revenue increase of 2.9% (was 3.4%, result of post submission reimbursement cuts)

- Required as a result of cuts in Disproportionate Share Program, increase in Free Care and underfunding in Medicare and Medicaid

☐ Expenses increase 2.9% projection to budget

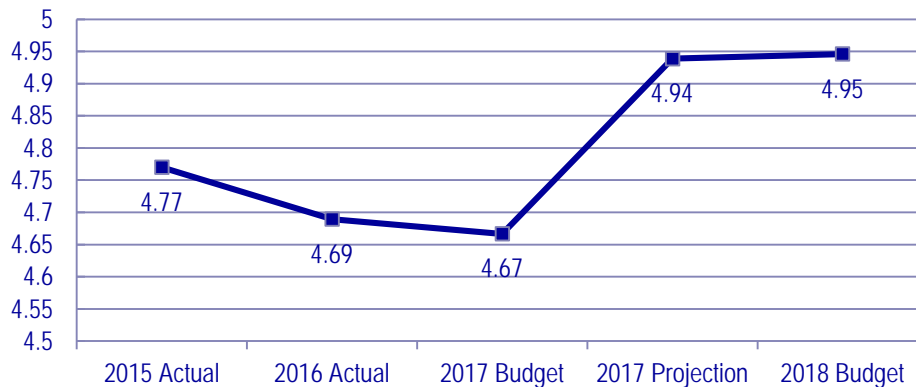
- Salary Increase of 3.5%
- \$4.8 million increase in non-salary expenses (Temp Staffing, pharmaceuticals and surgical supplies)
- No changes in employee benefits



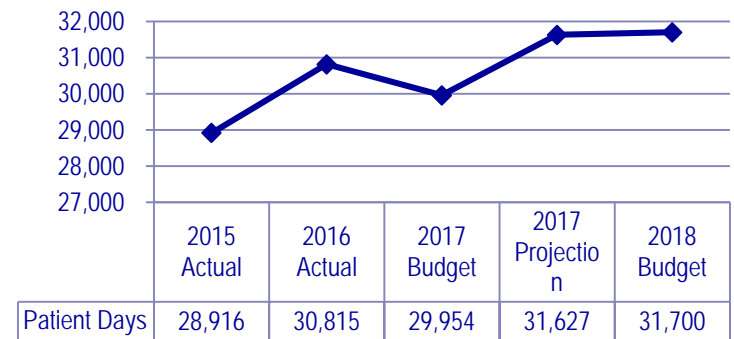
Inpatient Volume Trend

- Patient days and discharges are projected based on actual volume through February 2017
 - ❖ Average Daily census 88.3
- Slight Increase in length of stay
 - ❖ Set at 4.95 days per stay
 - ❖ Causes the increase in patient days, beginning 2017 Projection

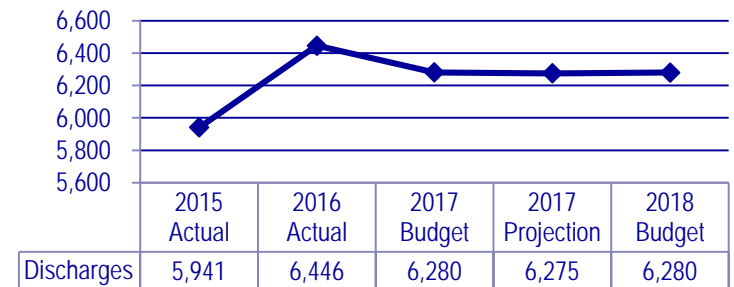
Overall Length of Stay



Patient Days (Excluding Nursery)



Discharges (Excluding Nursery)





Rates and Strategic Pricing

☐ Budget 2018 includes a 4.9% rate increase (\$6.5 million Net)

- A result of decreased Disproportionate Share Payments of \$1.2 million
- Increased reserve for Free Care of \$2.6 million
- Underfunding in Medicare and Medicaid - Medical and Staffing inflation of 3.5%
 - ♦ Medicare IP reimbursement rate increase 1.6%
 - ♦ Medicare OP reimbursement rate increase 1.0%
 - ♦ Medicaid reimbursement rates were expected to remain flat, now reduced

☐ Does not cover changes in Medicaid reimbursement made post budget submission



Allowed Net Patient Service for 2018

2017 Net Patient Service Revenue Budget	\$243,415,000
Allowed 3% Growth – Volume / Reimbursement	\$ 7,302,000
Allowed 0.4% Growth – Healthcare Reform	<u>\$ 974,000</u>
Allowed 2018 Net Patient Service Revenue Budget	\$251,691,000
 Budgeted 2018 Net Patient Service Revenue Budget	 \$251,547,000

Note: If post submission cuts realized this will result in \$250,334,000 NPSR



Healthcare Reform & Community Programs

Healthcare Reform: \$974,000 annual cost

- ☐ Expanding Clinical Social Workers - \$82,800
 - Emergency Room
- ☐ Community Care Management - \$80,300
 - Care collaborative team between CHCRR and RRMC
- ☐ Community Investment & Population Health Funding - \$520,000
 - Medication REACH (Reconciliation, Education, Access, Counseling, Healthy Patient)
 - Peer Specialists – Psychiatric and Substance Abuse Disorders (Patient compliance and Transitions of Care)
 - Come Alive Outside
- ☐ Blue Print – Medical Homes - \$151,300
 - Costs over State and Payer funding
- ☐ Screening, Brief Intervention, Referral to Treatment (SBIRT) - \$47,300
 - Costs over Federal grant funding
 - Emergency department patient screening by trained clinicians
 - Identify patients who are at risk for development of substance use disorders
- ☐ Community Support: \$92,300 grant funding
 - Continued funding to Community Grant Programs provided through the Bowse Health Trust
 - Expense growth from prior years



Other Operating Revenue

□ Total Revenue		\$12,290,310
■ Pharmacy		\$6,837,844
✓ RPMC Retail Pharmacy	\$1,533,600	
✓ Contracted Pharmacy 340(B)	\$5,304,244	
■ Grants (State and Federal)		\$2,910,759
■ Cafeteria Sales		\$978,684
■ Board Approval of Endowment Funds		\$734,574
■ Rental Income		\$221,167
■ Gift Shoppe		\$161,000
■ Rebates and Discounts		\$139,224
■ Rutland Health Foundation – Program and Events		\$ 54,500
■ All Other		\$252,558



Reimbursement Assumptions

Medicare

☐ Inpatient Rates – anticipated net reimbursement \$790,000

- Medicare Market Basket Update 2.9%

Offsets:

- Affordable Care Act Required Adjustment (.75%)
- Productivity Adjustment (.40%)
- Other- MS, DRG, Quality, Coding, (.14%)
- Overall Increase in reimbursement 1.60%

☐ Outpatient Rates – anticipated net reimbursement \$209,000

- Improved reimbursement of 1% is anticipated

☐ Medicare Quality

- Value Based Purchasing Performance for inpatient quality reporting is a net gain of \$103,100.



Reimbursement Assumptions

Medicaid

- ☐ No anticipated changes in reimbursement rates in original submission
- ☐ Disproportionate Share program
 - Bed Tax (6% of Net Revenue): \$ 14.5 million
 - Assumes DSH reimbursement (based on 2016 actual): \$4.6 million
 - \$1.1 million decrease from last year

Note: Does not include proposal for rebasing of Medicaid. Nor does it include final DSH calculations. Together we project these changes to be about \$1.083 million less.



Reimbursement Assumptions

Commercial

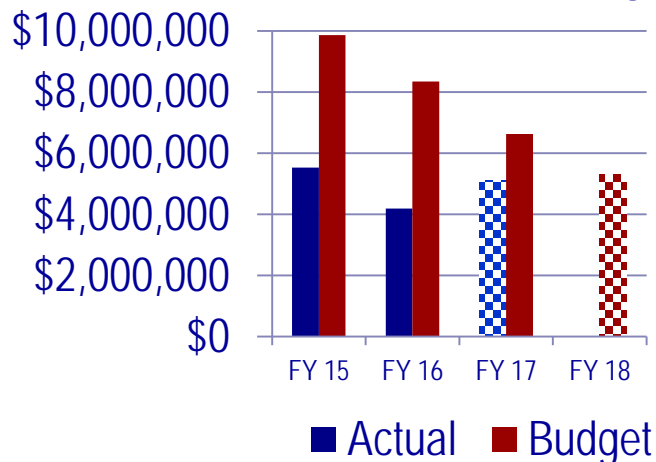
- ❖ No anticipated reimbursement changes

General

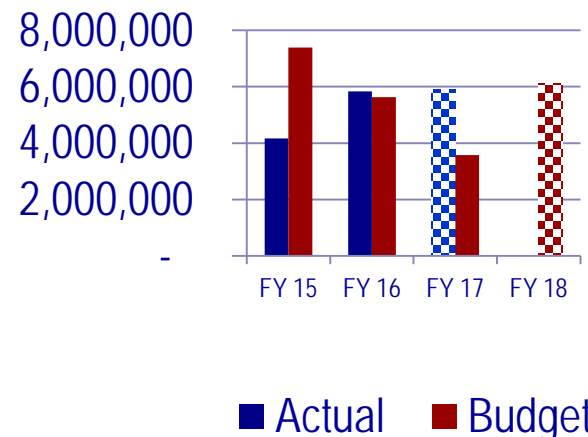
- ❖ Bad Debt is anticipated to remain consistent with FY2017 - decrease budget to budget
- ❖ Free Care is anticipated to remain consistent with FY2017 – increased budget to budget
- ❖ All Payer Modeling assumptions are not included
- ❖ Case Mix remains consistent with FY2017

Note: Does not include changes for parity.

Bad Debt Trending



Free Care Trending





Net Revenue Change by Payer

	<u>Rates / Reimbursement</u>	<u>Service / Volume</u>	
<input type="checkbox"/> Commercial	\$ 4,450,100	\$ 3,513,711	Rates: Net of 5/1/17 decrease and 10/1/17 planned increase Other: Market Share, physician transfers and service mix
<input type="checkbox"/> Medicaid	(\$ 1,145,633)	(\$ 3,568,335)	Rates: Reduction in DSH reimbursement, No Expected change in Medicaid Reimbursement in 2018 Other: Service mix
<input type="checkbox"/> Medicare	\$ 1,000,000	\$ 5,116,284	Rates: 1.6% IP, 1.0% OP improved reimbursement Other: Payer mix increases, service mix market share and increased utilization.
<input type="checkbox"/> Free Care	(\$ 1,234,292)	\$0	Rates: Increased use of free care Other: No Change
	<hr/> \$ 3,070,175	<hr/> \$ 5,061,660	



Reimbursement Risks and Changes since Budget Submission

	Known	Proposed/At Risk
IP Medicare		
Final Rule Rates	148,000	
Total Knee Replacements moved to OP setting		(845,000)
OP Medicare Payments		
Rate adjustment (Wage Index, Market Basket)		705,900
Payment Reductions for 340B Drugs		(2,850,000)
Medicaid		
DSH payment Reduction (State and Federal Changes)	(583,000)	
Rebasing – 2017 actual payments compared to 2018 estimates	(500,000)	
Commercial Insurers		
Changes in Payment Policies	(278,000)	
Uncompensated Care		
Actual bad debt and free care over 2018 Budget		(1,584,000)
Federal ACA Changes: Based on AHA study		(1,900,000)
Total	(1,213,000)	(6,473,000)



EXPENDITURES...



Physicians and Advanced Practice Providers

	Physician
Ophthalmology	1.00
Psychiatry & Addiction	.50
Miscellaneous	.37
Total	1.87
Summary:	
2017 Budget	71.00
New Providers/FTE changes	<u>1.87</u>
2018 Budget	72.87

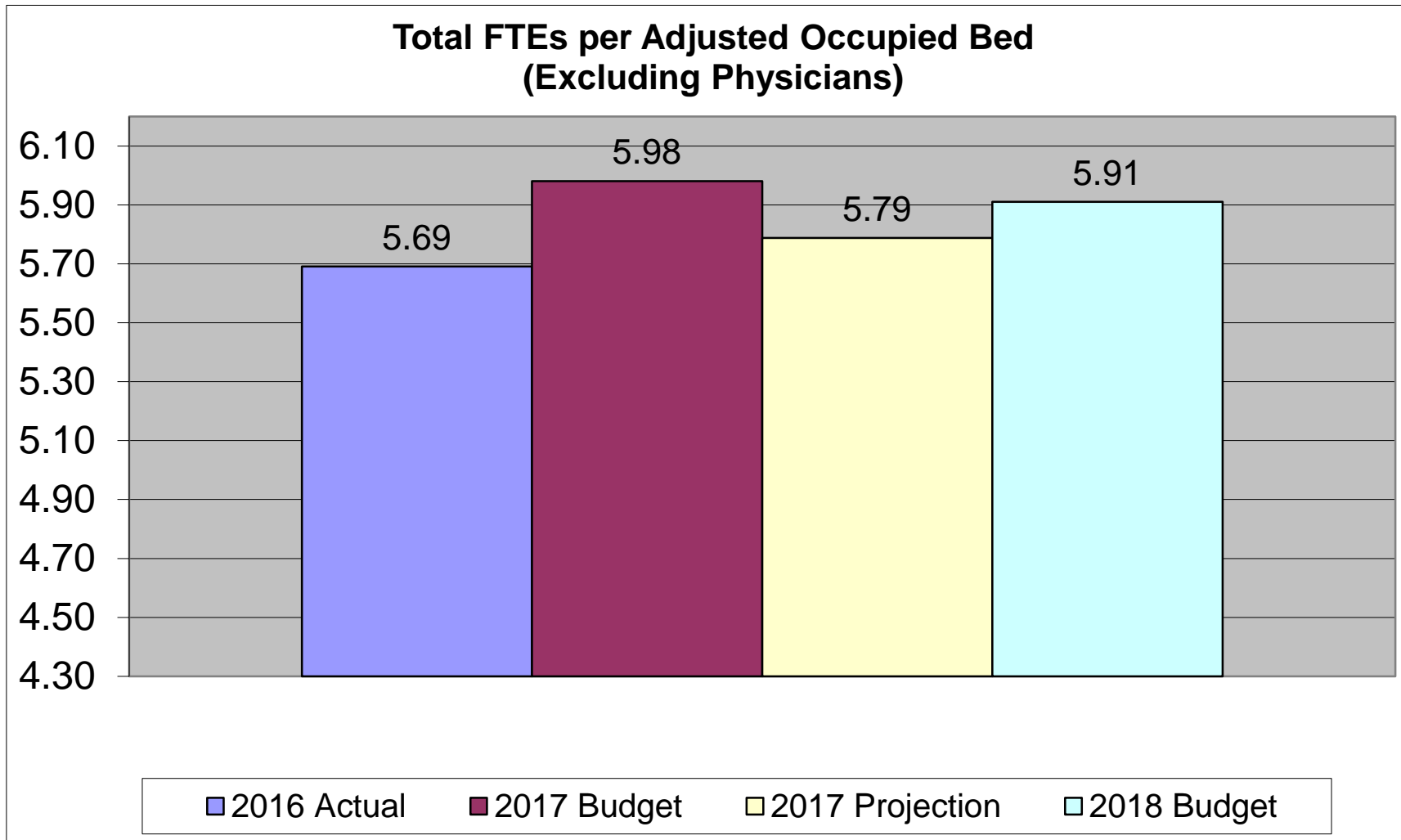


FTE and Salary Changes

	FTE	Salary
Budget 2017	1,254.5	\$79,242,562
New Positions	33.2	\$ 1,690,650
Reductions (coverage hours/FTEs)	(16.0)	(\$ 814,470)
Merit Market		\$ 2,296,932
Grade/Skill Mix / Premiums	_____	<u>\$ 109,540</u>
Total Changes	17.2	\$ 3,282,652
Budget 2018	1,271.7	\$82,525,214



Productivity Results





Non-salaries Expense Changes

Budget to Budget Increase (6.9%)

\$4,946,500

Increases:

Contract Staffing
Variance in 2017)

\$1,753,800 Contract Staffing (Budget Correction -

Pharmaceuticals

\$1,158,500 Related to increase in cost to charge

Retail Pharmacy

\$1,009,500 Full year of expense in FY 2018

Operating Room

\$ 496,500 Related to increase in cost to charge

Pharmacy 340b Program

\$ 419,600 Related to increase volume

IT Works

\$ 157,200 Increase in Consulting/Workforce

Human Resources

\$ 126,000 Increase in tuition reimbursement

Decreases:

West Ridge

(\$ 299,200) Decrease in Pharmaceuticals

Rutland Heart Center

(\$ 208,700) Decrease in Service Contracts

All Other Net Increases

\$ 333,300



Admin and Fringe Benefits Changes

Administrative Budget to Budget Increase **\$464,100**

- Disproportionate Share Tax (6% of Net Patient Revenue) \$ 457,300
- CHCRR Subsidy \$ 6,800

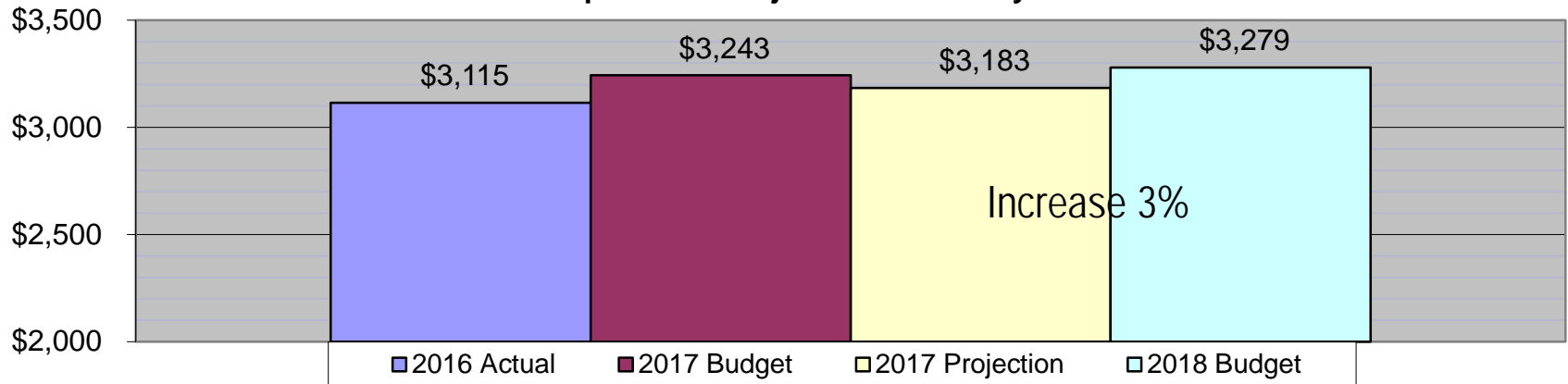
Fringe Benefits Budget to Budget Decrease **(\$ 756,900)**

- FICA (FTE related) \$ 223,400
- Workers Compensation (claims related) \$ 704,300
- DC Pension Expense (FTE related) \$ 343,200
- All Other Benefits \$ 179,000
- DB Pension Expense (\$ 739,300)
 - Discount Rate is 4.0% (last year 3.75)
 - Mortality table updated in 2016 (MP2016)
- Health Insurance (net of contributions) (\$ 1,467,500)
 - Employee contribution percentage set at 25% (no change)
 - Domestic Claims discount (services provided at RPMC) remain at 42%
 - Includes 5% Trend factor for all claims outside of Rutland
 - Rutland domestic claims based on our recent rate reductions and 24 months of claims
 - Status Quo Benefits

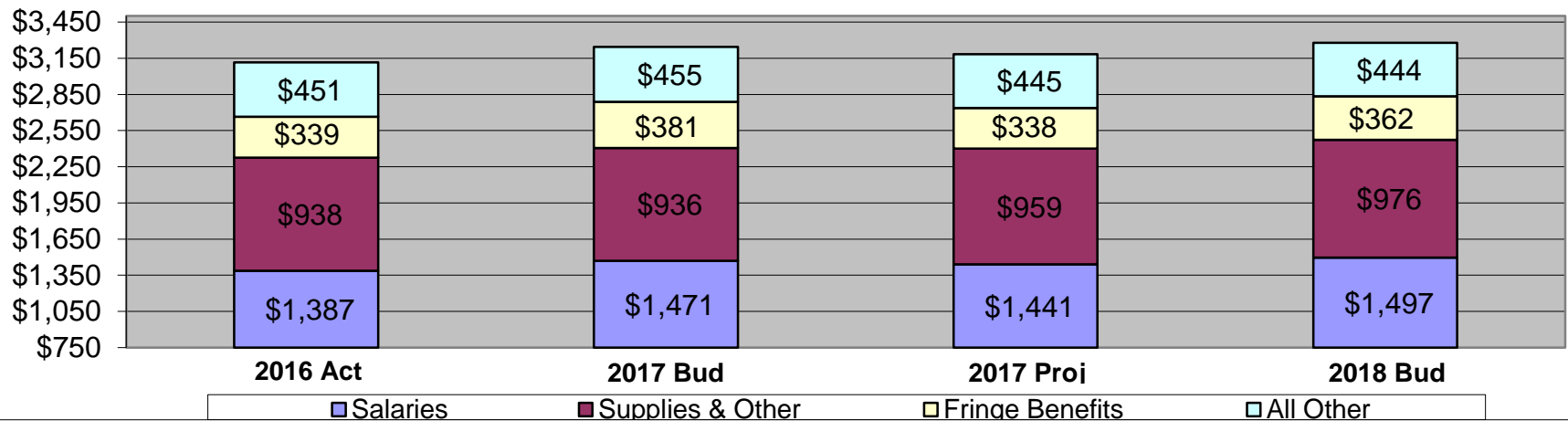


Cost Trends

Expense Per Adjusted Patient Day



**Expense Components
Cost Per Adjusted Patient Day**





Operating Margin and Rate Setting Impact

- ❑ We have budgeted a 2.5% operating margin
 - Consistent with 2016 and 2017 Budgeted Levels
- ❑ Risk factors may impact. If significant, we request the ability to update GMCB and perhaps ask for budget adjustment.



Capital Budget



2018 Capital Budget

Routine Capital					Spending in FY 2018	
Window Replacement					\$ 1,518,152	
Mammography Tomography Units					\$ 1,110,000	
Hospira Infusion Pump					\$ 898,460	
FY 18 Device Refresh					\$ 850,000	
Chemistry Instruments					\$ 750,800	
South Watershed Stormwater Upgrade					\$ 710,000	
USP 800 Pharmacy FCC Remodel					\$ 619,163	
Birthing Center Renovations					\$ 588,235	
WACU Renovations					\$ 529,768	
GE PACS AE Storage Expansion					\$ 496,621	
Provation EMR - Endoscopy					\$ 359,846	
Laboratory Automation					\$ 25,000	Planning costs only, future project costs estimated at \$1,525,000
Miscellaneous Capital (Items < \$250,000 each)					\$ 1,369,737	
Information Technology Roadmap					\$ 1,000,000	
Contingency					\$ 2,500,000	
Total Routine Capital Budget FY 2018					\$ 13,325,782	
CoNs					CoN Approval Date	
Replacement of A				Approved July 2017	\$ 2,000,000	Reflects 2018 spending only, total project costs are \$5,673,532
Nuclear Medicine (Unapproved)				Submitted May 2017, pending approval	\$ 1,678,000	Reflects 2018 spending only, total project costs are \$2,840,596
Medical Office Building & Loading Dock (Unapproved)				Target July 2017 to Submit	\$ 3,000,000	Reflects 2018 spending only, total project costs are \$21,692,069
Total Capital Budget					\$ 20,003,782	



Community Health Assessment

Factor	Key issues to address	Importance
Clinical Care	<ul style="list-style-type: none">➤ Mental health and substance abuse services for adults and youth➤ Recruitment and retention of primary care providers, both medical and dental	<ul style="list-style-type: none">✓ To continue to address the drug problem in our community, through treatment, aftercare and prevention.✓ To continue to improve access to care for all community members.
Healthy Behaviors	<ul style="list-style-type: none">➤ Life skills for youth➤ Physical activity for and by adults and youth	<ul style="list-style-type: none">✓ To improve promote healthy choices and activities to support a healthy community in which to live and raise a family.
Social & Economic Determinants	<ul style="list-style-type: none">➤ Recruitment and retention of businesses and people to the area➤ Societal culture building➤ Educational attainment	<ul style="list-style-type: none">✓ To improve the health and well-being of our community, making it an attractive place to live and work.
Physical Environment	<ul style="list-style-type: none">➤ Housing➤ Transportation, vehicular	<ul style="list-style-type: none">✓ To improve infrastructure to support a healthy community with access to work, recreational opportunities, and services.



Prices

- ☐ Looking at individual charges by diagnoses or code is always difficult.
- ☐ By diagnoses includes many individual charges.
Complexity of case and small sample size can be issue.
- ☐ Every hospital has literally thousands of charges, picking individual charges is problematic.
- ☐ Payer mix has enormous impact.
- ☐ Still we are committed to increasing price transparency.



Reporting of Data

Patient Safety, Infection Rates, Nurse Staffing Ratios:

- Vermont Department of Health
 - ♦ Hospital Report Card
 - ♦ Patient Safety & Surveillance Improvement System
 - ♦ Adult Protective Services & Department for Children and Families
- Vermont Department of Mental Health (psychiatric patients)
- Joint Commission (sentinel events only)
- American Nurses Association Quality Indicators Database (NDNQI)
- Centers for Medicare & Medicaid Services Hospital Compare program
- CDC's National Health Safety Network (infection rates only)



Using Quality Information to Improve Outcomes

- ❑ Individual physician performance monitoring & peer review processes to improve clinical outcomes & patient safety.
- ❑ Multi-disciplinary clinical case reviews with community partners for same purpose (transitions & hand-offs).
- ❑ Big focus on reducing readmissions and improving care integration.
- ❑ Choosing Wisely & other initiatives being introduced to reduce clinical variation and reduce costs.
- ❑ Data warehouse will soon have quality, patient experience, financial and operational data for reporting & analysis to improve the value of our services to patients.
- ❑ Patient experience data is consistently collected & used across the organization.
- ❑ Regular use of performance benchmarks & targets to evaluate performance.
- ❑ Annual prioritization of quality improvement opportunities. Results feed the organizational dashboard & 1 year action plans.
- ❑ Other outcomes: Mortality rates, complications, ratings by external agencies, Merit-based Incentive Payment System (MIPS) quality measures & clinical improvement activities.
- ❑ All of these are reviewed and discussed with the Board of Directors/Quality Committee on a regular basis.

National Recognition

*A reflection of the talent and dedication of our healthcare professionals
as well as their deep level of caring for our patients.*



COPD



HEART FAILURE



HIP REPLACEMENT



KNEE REPLACEMENT

