

## 1. Executive Summary

We are pleased to provide this narrative summary in support of the UVM Health Network-Porter Medical Center operating and capital budget for Porter Hospital for FY 2018. In addition to aligning with the Green Mountain Care Board revenue target, our FY 2018 budget represents the first Porter Hospital submission that does not include a price increase in more than a decade. Our budget incorporates patient volume assumptions that are realistic based on our historic performance and data-driven projections for the future.

### Background

Porter Medical Center continues to recover and rebuild from our experience in fiscal year 2016; during which we suffered significant staff and provider losses that needed to be addressed immediately when Dr. Fred Kniffin assumed the role of CEO in March of 2016.

Fiscal year 2017 was focused on rebuilding our primary care network and our clinical staff; we have made great progress in both of these areas. Of course, the single greatest change during our current fiscal year was joining the UVM Health Network as the sixth affiliated hospital on April 1.

The decision to join the UVM Health Network was driven by our Mission: *“To Improve the Health of our Community...”* through greater integration and collaboration with our state’s academic medical center and to leverage this new relationship to benefit from the clinical and financial resources of the network.

Our budget for FY 2018 incorporates significant expense savings that we anticipated as we explored this affiliation including savings in purchased services, legal expense, and other “shared services” now available to us. This not only benefits Porter, but represents system savings as well.

Beyond finances, the clinical integration and collaboration has already resulted in a new Palliative Care service, the exploration of additional chemotherapy services as well as other clinical initiatives focused on improving local access to appropriate clinical services and keeping as much care here in our community as suitable.

Our affiliation with the UVM Health Network has allowed Porter to be the only Critical Access Hospital in Vermont to participate in the Vermont Medicaid Next Generation risk program. This involvement has enabled Porter to be a leader in our State’s efforts to move forward with payment reform initiatives that represent our best chance to meet the triple aim of improving quality, enhancing the patient experience and moving toward affordability by reducing system expense. The affiliation also represents an opportunity for Porter to improve our population health implementation strategy and build a system based on clinical integration which rewards value rather than volume.

As we approach fiscal year 2018, we continue with the important work of rebuilding our workforce, strengthening our balance sheet, and investing in appropriate resources to meet the clinical needs of our community. We believe we have stabilized our operations and our finances to the point where we are now positioned to move forward with the initiatives that are built into our budget for FY 2018 as described in more detail throughout this narrative.

Finally, our budget for FY 2018 incorporates a new approach to nurse staffing, which we anticipate will result in more consistent care and decreased expense. We have outlined this new initiative later in the narrative, but our goal is to reduce our dependence on temporary labor by investing in a staffing model

which will decrease budgeted expenses as it compares to actual FY 2017 by \$2.5M. Temporary labor expense, as well as the financial struggles faced by Helen Porter Healthcare and Rehabilitation Center, represent two significant financial challenges for our organization that we have invested a great deal of time and effort in addressing seriously and creatively as we head into a new fiscal year.

Other operational highlights that are included in the budget figures for FY 2018 include:

- Our new Porter ExpressCare opened in mid-June in the Collins Building on the hospital campus. The primary goal of this service is to build upon our existing primary care network and ensure appropriate access to high quality, “urgent medical care” in a setting that is both more convenient and less expensive than a traditional Emergency Department. The service is open seven days a week, including evening hours on weekdays. We believe that this service represents a very positive development for our patients as we continue to strive to promote access to acute care services in the most appropriate, convenient and cost-effective setting.
- The introduction of a new Palliative Care service for our community via the financial support of the UVM Health Network. We anticipate that this service will continue to grow in the future. Although we have not had to incorporate expenses related to this initiative in our organizational budget, thanks to the generous support of the network, we include it in this narrative as an example of initiatives that we are pursuing as part of our affiliation to secure important and appropriate programs here in our community that represent both improved clinical care for specific populations of patients, but also care that is efficient, effective and innovative. As we move into a new world of payment reform that rewards value rather than volume of services, we see this new program as gaining importance in improving quality and enhancing the patient experience in a more affordable setting.
- A reduction in two senior leadership positions was possible as part of our UVM Health Network affiliation. Due to the partnership of the Network, we now have access to new expertise and resources that will be critically important to the future of our organization. As a result, we decided not to replace two senior leadership level staff positions (Vice President for Information Technology and Vice President for Support Services) in the FY 2018 budget. We recognize that this will require members of our existing leadership team to take on additional responsibilities. However, with the support of the UVM Health Network and their resources, we are confident that we will be successful with a smaller number of administrative staff.

Following are the responses to the Green Mountain Care Board reporting requirements as part of the budget submission process. We are confident that this budget represents our financial roadmap to ensuring that we meet the healthcare needs of our community while concurrently working with our colleagues throughout the State to be a leader in both payment reform and population health initiatives.

## **2. All-Payer Model & Delivery Reform**

Porter Hospital is one of the original members of the *Vermont OneCare ACO* and continues to be an active participant in the exploration and implementation of value-based payment and delivery reform efforts.

In December of 2016, Porter Hospital made the decision to enter into our first risk-based contract under the Vermont Medicaid Next Generation (VMNG) program in full recognition that this initiative was not reflected in our 2017 Budget. We are committed to being a leader in this effort with the support of the UVM Health Network. Porter Hospital is the only Critical Access Hospital in Vermont that is participating in VMNG risk program. We are well underway in developing our financial, clinical and organizational infrastructure to support this participation while continuing to work within traditional fee-for-service reimbursement programs.

Although not included in our FY 2018 budgeted revenue projections, Porter Hospital will continue to be a participant in the Vermont Medicaid Next Generation program along with the Vermont Network Hospitals and intends to participate in risk programs as they expand into Medicare and Blue Cross Blue Shield of Vermont. In concert with the Network, participating in Next Gen programs allows us to invest in new care delivery models that:

- Ensure patients annually receive a comprehensive health assessment.
- Ensure patients are treated regularly and in the most appropriate setting based on their condition.
- Connect and provide support for high risk patients through the Community Care Team.
- Promote and encourage the delivery of the right care at the right time in the right setting.

As our organization steps forward to make these investments and participate in risk-based payment programs, we encourage the Green Mountain Care Board to also consider new approaches to budget review in order to achieve its goal of effective regulation while concurrently supporting this type of innovation by Vermont hospitals.

### **3. Community Health Needs Assessment**

A fundamental guiding principle of our Community Health Needs Assessment is that our community depends on Porter Medical Center for access to appropriate health services; primary and specialty care in our network of provider practices, acute care services within our hospital and skilled nursing care in our Helen Porter Nursing and Rehabilitation Center.

One of the implementation strategies for 2017 is the further development of our new Patient Access Center (PAC); a centralized scheduling center that now manages scheduling for the majority of our Porter Medical Group practices which provides our patients with better access to primary care appointments with less waiting and better service. Given the success of the PAC and the importance of access as a central element of our CHNA, we have expanded the scope of this service to include both Imaging and Surgical Services; improving access, efficiency and customer service.

A second area of community need is for additional services to address the opioid epidemic by expanding our Medically Assisted Treatment program into Middlebury in order to increase services and improve access to opiate addicted community members. We have included more information on this topic in the next section of this narrative.

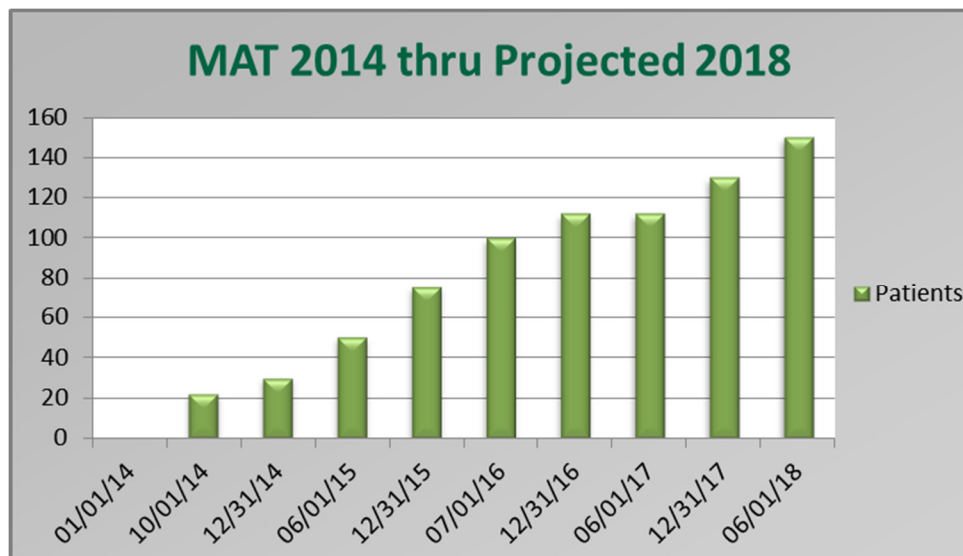
Finally, addressing chronic health conditions continues to be an area of focus for our organization in meeting the health needs of our community. Porter Hospital is a community leader in building a population health strategy and promoting wellness activities to address chronic health conditions via the following initiatives:

- The Blueprint for Health: Porter has made a significant investment in our Blueprint Team, which continues to develop and implement health and wellness initiatives throughout our primary care network and our community.
- Primary Care: We view primary care as the backbone of our community healthcare network. We have invested considerable resources to build and maintain a robust network of primary care offices for our community.
- Community Health Teams: Wellness experts, mental health clinicians and others serve on our Community Health Teams and provide services to our patients throughout our primary care network in support of our population health strategy. These teams represent the foundation of the implementation of our population health strategy within our primary care setting.
- Certified Medical Home: Each of our primary care practices is a “certified medical home” based on the Meaningful Use criteria.
- Vermont Medicaid Next Generation: We are developing new internal strategies and resources to improve care coordination of our most complex and chronically ill patients.

#### 4. Mental Health & Substance Abuse

Substance abuse treatment, and specifically our Medically Assisted Treatment program (MAT), is an area of great need in our community, as well as an opportunity for our organization to meet the needs of the people we serve. In an effort to address this challenge, we have taken a number of steps, including the expansion of our Medically Assisted Treatment/Suboxone program into both Middlebury and Vergennes primary care practices, in addition to building upon our success in our Bristol Primary Care practice; these steps been integrated into our budget assumptions for FY 2018.

The anticipated expansion of our Medication Assisted Therapy (MAT)/Suboxone program from a single primary care site (Bristol Primary Care) to additional sites in Middlebury and Vergennes represent an important step forward in our efforts to meet the needs of this special population of patients.



We have incorporated incentives into all provider contracts that reward them for becoming MAT providers. We also have invited the Executive Director of our local Counseling Service/Community Mental Health Agency to sit on our board of directors as a tactic for improved service coordination and communication. Finally, we collaborate on an ongoing basis with the Counseling Service of Addison County to provide mental health services in our community; including involuntary placement situations within our Emergency Department due to capacity issues for inpatient mental health patients in Vermont.

## **5. Health Reform Investments**

Porter Hospital's FY 2018 proposed net revenue budget includes the request for the 0.4% allowance for new investments in healthcare reform. This increase equates to \$315K of additional NPR. The following initiatives are related to new investments in healthcare reform for Porter Hospital:

- Participation in the 2018 All Payer Model Next Generation Programs (Please refer to section 2 above).
- Investments in security and staffing to address the behavioral health patients that frequent our Emergency Room.
- Infrastructure support and expansion of MAT services in Addison County (Please refer to section 4 above).

## **6. Budget-to-Budget Changes**

### Net Patient Revenue

Porter Hospital is requesting an overall 3.4% increase in Net Patient Revenue as it compares to the FY 2017 approved budget. This increase is mostly comprised of revenues generated by new or enhanced services/programs. Additionally, actual performance YTD FY 2017 has reflected an increase in outpatient ancillary service utilization resulting in increased outpatient revenues that would be included in the baseline for FY 2018 revenue budget. There have been several significant changes to our FY 2017 budget that affect our FY 2018 proposed budget:

- In June of 2017, Porter Hospital opened its first *ExpressCare* center. Porter *ExpressCare* provides access to patients suffering from urgent health care needs that do not require the resources of an Emergency Department during extended/convenient hours and at a lower cost of care than our Emergency Department.
- In December of 2015, Porter Hospital introduced its Infusion Center to the community, initially offering a limited array of services. During the 2017 budget year, infusion services have been further enhanced in consultation with area medical providers; allowing us to better serve our community. The ongoing growth of this service has resulted in an increase in revenue to our 2018 budget.
- Other increases in outpatient ancillary service utilization and revenue is primarily attributed to the following areas of projected service growth: imaging, physical therapy, and cardiology.

### Cost Saving Initiatives

Porter Hospital is committed to both the efficient delivery of services and cost containment initiatives as exemplified by our emphasis on primary and preventative services and our investments in population health strategies and outpatient services designed to keep appropriate care local. Porter strives to achieve these operational efficiencies and expense reduction strategies; the following initiatives have been incorporated into our FY 2018 budget:

- Development of a new Nursing Staff Model, resulting in the reduction of Porter's temporary labor expense for FY 2018, which will reduce budgeted expenses as compared to actual FY 2017 by \$2.5M
- Additionally, Porter has implemented a staffing control mechanism as a tool to ensure FTE growth is focused on meeting identified clinical needs.
- During the FY 2017 budget year, Porter Hospital made the decision to transition its Workers Compensation and MVA billing from a third party vendor to in house existing resources. This will result in an overall budget-to-budget savings of \$205K.
- Network economies of scale and shared services agreements will produce significant savings to Porter in the area of Supplies, Material Management, Legal and Audit Expense, and Consulting.
- A reduction in two senior leadership positions as previously mentioned.

### Revenue Assumptions by Payer

Medicare revenues are budgeted in accordance with our Critical Access, cost based settlement process. Porter Hospital's estimates have taken into account an increase in outpatient activity and thus have made the appropriate adjustments to those net revenue assumptions.

In the beginning of calendar year 2017, Porter underwent a CMS audit pertaining to FY 2014. Upon receipt of preliminary information, this will have an impact on Porter's 2017 Medicare estimates. The final notice from CMS may not be received until 2018 at which time an adjustment may be required.

Porter Hospital's budget includes \$76,500 in meaningful use monies and \$2,557,339 in 340B funds.

Porter Hospital assumes no change in Medicaid rates. However, Porter does anticipate Disproportionate Share receipts to decline in FY 2018.

Porter Hospital's budget assumes an overall rate increase of 3.0% from its commercial payers.

Net revenue discounts, as stipulated by 501r regulations, has impacted on our FY 2018 budget due to actual performance in FY 2017.

As a factor of gross revenue, budgeted bad debt for FY 2018 is 1.9% vs. 1.5% in FY 2017. FY 2018 budgeted Charity Care is 1.1% vs. 0.7% in FY 2017. FY 2018 budgeted expectations are more in line with actual performance.

## 7. Budget-to-Budget Expenses

### Salaries & Wage Expense

Salary expenses are budgeted to increase by \$2.9M, this equates to an 8.2% change in total, budget-to-budget. The increase in salary expense is a result of the following:

- 7.0 FTEs have been added to appropriately staff our newly established *ExpressCare* service. (~ \$435K)
- 7.0 FTEs have been added to create a new nurse staffing model with the intention of mitigating the heavy reliance on temporary nursing staff. (~ \$415K).
- An overall cost of living increase of 2% has been proposed in the FY 2018 budget. (~ \$490K).
- Porter Hospital is continuing to address wage compression based on market data and has been deliberate in adopting a phased approach in an effort to manage the expense. The FY 2018 budget represents the final phase of the project, resulting in \$575K in expense. Notably, in the final phase of this initiative, it was discovered that ED physician compensation fell considerably below market benchmarks. This resulted in a greater expense to the final phase of the project.
- Added 1.0 FTE Otorhinolaryngologist, this has been a vacancy within our organization for two years. The recruitment to replace this key role has been a challenge. Meanwhile, continued demand for these services within our community is evident.
- We have implemented benchmarking data to ensure our providers are being fairly compensated in support of our strategy to retain providers rather than continue to expend resources in an ongoing recruitment campaign.

### Other Operating Expense

Other operating expenses for FY 2018 were budgeted at a 1% increase as they compare to the FY 2017 budget. This was able to be achieved as a result of reductions in the expense areas of meals and travel, recruitment, minor equipment, and annual fees. Additionally, as Porter is now part of the UVM Health Network, we were able to begin recognizing material expense savings in the FY 2018 budget due to the Network's economies of scale. Cost savings in the areas of supplies, legal expense, audit expense, and consulting have been incorporated into the FY 2018 budget. Porter Hospital has included a 2% inflationary factor, applicable to specific operating expense categories; however, the aforementioned expense offsets reduced the impact this would have on the overall increase in expense.

### Provider Tax

This expense is based on a calculation of 6% of the projected FY 2018 net patient revenues. For the 2018 budget, this equates to a 13% increase in the anticipated expense as it compares to budget FY 2017.

## 8. Rate Request

Porter Hospital's budget proposes a 0% price increase; as a result, charges will not reflect an increase in the areas of inpatient, outpatient, and professional fees. Conversely, Porter Hospital is proposing a commercial rate increase of 3.0%. The reasoning for this approach is to address the disconnect between

an overall price increase and real net revenue change. A significant portion of Porter Hospital’s commercial reimbursement is based on DRGs (Diagnostic Related Groups), fee schedules, and percent of charge, which leaves a small percentage of our reimbursement affected by price changes. Therefore, increases to our list prices do not always result in improved reimbursement.

Our principal methodology for the commercial rate is to negotiate contractual changes with our commercial payers that will yield the revenues needed to meet budgeted requirements.

## 9. Budget-to-Actual

Porter Hospital’s projected 2017 net revenue exceeds originally budgeted expectations by approximately 1.25%. This falls below the net revenue cap imposed by Green Mountain Care Board. As previously mentioned, Porter opened its *ExpressCare* service, for which revenues were conservatively projected. Should this service line exceed expectations, the aforementioned net revenue projection could change.

## 10. Capital Budget Investments

Proposed capital spending for budget FY 2018 equates to \$3.7M. Key investment items include:

Capital Expenditures	
Clinical Purchases	
Radiology/Fluoroscopy Unit Upgrade	\$ 400,000
(3) OR Beds	\$ 123,000
Wireless Fetal Monitor & Upgrade	\$ 88,000
Microbiology Analyzer & EMR Interface	\$ 78,000
(2) Surgical Drills	\$ 70,000
IT Purchases	
Windows Upgrade for Workstations	\$ 176,000
Meaningful Use Upgrade (Stage III)	\$ 82,000
Plant & Facility Improvements	
PMA Renovation	\$ 350,000
Parking Lot Resurfacing (Phase II)	\$ 125,000

The effect these acquisitions will have on Porter’s FY 2018 operating budget equate to an added depreciation expenditure of \$271K, assuming all budgeted assets are acquired. This will bring our total budgeted depreciation expense to \$3.2M.

Future capital investment items being considered include: a Medical Office Building, inclusive of supplementary plant improvements as part of our master facility plan, a CAT scan unit, and a full Mammography upgrade.

Porter Hospital has been included in the proposed Certificate of Need for the UVM Health Network’s replacement of the current electronic health record.



## **11. Technical Concerns**

Porter Hospital has been in conversations with Green Mountain Care Board staff to address the reporting structure of capitated revenues. The Financial Accounting Standards Board (FASB) guidance indicates that capitated revenues of this type be reported in the other revenue category versus net patient revenue.