Gifford Medical Center

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July 06, 2015

Mr. Michael Davis
Green Mountain Care Board
89 Main Street
Montpelier, VT 05620 -3101

Dear Mr. Davis,

This letter serves to provide you with a narrative summary of our FY2016 budget. We have also provided the oath documents and completed the online budget spreadsheets. Gifford Medical Center utilizes a Five Year Planning Tool that produces Profit and Loss Statements, Balance Sheets, Statistics, etc. We used this tool to help complete the budget forms. The projections for our budget are based on historical data, current experience, changes in service delivery, and ongoing operational improvements. This budget was submitted to and approved by the Gifford Medical Center Board of Trustees.

On May 26, 2015 Gifford opened the doors to its new Menig Nursing Home. To move the nursing home off the Gifford Medical Center main campus required that the new nursing home not be considered a hospital base facility. To accommodate this change a new corporation was created, Gifford Retirement Community (GRC). Consequently, the FY2016 budget for GMC has been reduced with the removal of the Menig Nursing Home services, which are now part of GRC.

Revenue Assumptions

Utilization is driven by physicians, available services, and available staff. Stable staffing, improvements on existing technology and services, and better management is allowing us to better meet the needs of the community.

Inpatient services saw an increase for the next year as compared to budget 2015, and we expect to see a decrease in Swing Bed.

On the Outpatient lines of business, we expect an overall decrease. The majority is being caused by a reduction in our outpatient surgical services. All other outpatient lines of business are averaging little to no change from budget 2015.

Budget to budget as well as projected to budget, clinic volume will see an increase. At the end of 2014 GMC implemented a clinic EMR which impacted productivity; the 2016 budget assumes normal productivity for our practices. In addition, we are now billing for our diagnostic imaging reads as of March 2015. This change was caused due to the departure or our independent radiologist group that left the area.

Our rate increase is a calculation resulting from our annual budget process and budget expectations. Volumes are determined at a detailed level. Staff then calculates the expenses associated with the volume change relative to inflation, staffing, etc. Our reimbursement levels are analyzed based on history. An appropriate margin on operations is determined and non-operating revenue levels are determined. The rate increase then becomes an exercise of projecting this year's prices plus a percent increase using next year's volume, expenses, and reimbursement levels to end up at the intended operations margin. We are implementing a 5.75% blended rate increase.

Deductions from Revenue

Affordable Care is not expected to change as a percentage of gross revenue as compared to budget 2015. Gifford Affordable Care is an application-driven process based on income, family size and extenuating circumstances. We endeavor to be "payer of last resort" relative to settlements, accidents, and other such matters.

Contractual Allowances are budgeted at a higher level than Budget 2015. Much of this is attributed to the reductions in Medicaid coverage and reimbursement, cost-report settlement changes, and more aggressive contracting activities by the commercial payers that we deal with.

Bad Debt is budgeted between budget 2015 and projected 2015 levels.

Net Patient Revenue

We are within the agency's expectations relative to Net Revenue growth

Other Operating Revenue

Annually, we eliminate all income that is not contracted and locked down. We remove all expenses and revenue from grants, "Rental" employees, and the like. We do not expect that there will be any marked change in the rental space arrangements that we have beyond inflationary. Cafeteria and Daycare revenue will increase on an inflationary basis.

Operating Expense

GMC has budgeted an increase in wages of 3.5% for both merit and market. Given that some of these monies will be directed towards market adjustments, staff will be receiving less than this (3.5%) as a salary adjustment. FTE's are staying relatively flat budget to budget and the mix of employees is not changing. Benefits are increasing between 3.0 – 5.5% for our health, dental and other insurances. Supplies and contracted services are staying flat from the 2015 budget. Insurance for malpractice, liability, etc. were unchanged from budget 2015. Interest decreased due to refinancing of our current debt. Depreciation increases slightly due to EHR and Meaningful Use IT investments (short term depreciation schedules).

Non-Operating Revenue

We are expecting $150,000 from development efforts and moderate gains in the stock market for our investments.

Normalized Profit and Lost

Below is a summary schedule that "normalizes" Budget 2016 so that the Budget 15 – Budget 16 net patient revenue and expense changes can be reviewed.

	A	B	"Off the Record"
	As Submitted GMC Budget 2015	As Submitted GMC Budget 2016	Not Submitted GMC w/GRC Budget 2016
Total Patient Care Revenue	$ 112,461,254	$ 114,775,075	$ 119,453,044
Total Allowances	$ 54,540,324	$ 58,573,344	$ 59,846,637
Net Patient Revenue	**$ 57,920,930**	**$ 56,201,731**	**$ 59,606,407**
Total Other Revenue	$ 959,532	$ 1,143,988	$ 2,146,327
Net Revenues	**$ 58,880,462**	**$ 57,345,719**	**$ 61,752,734**
Total Salaries	$ 25,469,400	$ 26,516,032	$ 28,632,266
Total Expenses	**$ 57,330,009**	**$ 55,683,976**	**$ 60,090,991**
Net Gain/Loss	**$ 1,550,453**	**$ 1,661,743**	**$ 1,661,743**
Total Non-Operating Revenue	$ 1,849,999	$ 850,000	$ 850,000
Excess of Revenues over Expenses	**$ 3,400,452**	**$ 2,511,743**	**$ 2,511,743**

We continue to try to maintain our financial ratios at the small hospital; BBB levels. This will continue to positively affect, to some degree, our interest costs, to build a reasonable level of funded depreciation, and to provide a solid base for an uncertain future. Please contact me with any questions or concerns. Thank you.

Sincerely,

Jeff Hebert
Vice President of Finance
Gifford Medical Center
(802) 728-2356

cc: J. Woodin, C.E.O.