



July 1, 2015

Michael Davis, Director of Cost Containment
Green Mountain Care Board
89 Main Street Drawer 20
Montpelier, Vermont 05602-3601

Dear Mike,

The Board of Directors has approved the attached budget. The following narrative addresses the salient issues in our budget. Please call to discuss any concerns you may have.

Summary

- Rate request is a 1.2% aggregate rate reduction.
- Net patient service revenues are budgeted to increase 3.8% from the Fy2015 budget.
- Operating expenses are budgeted to increase 3.2% from the Fy2015 budget.
- The Operating Margin is budgeted at 0.1% compared to 0.3% budgeted for FY2015.

A. Significant changes from FY2015 Budget

1. Patient access:

As discussed in prior years, we have been responding to the challenges of maintaining appropriate levels of primary and specialty care physician access for our communities. BMH is currently exploring areas of enhancing efficiencies and improving access in the practices by looking at staffing ratios, increased use of mid-level providers, adding care coordinators, and centralizing healthcare services such as scheduling new patients, triage, referral management and prescription refills.

2. Provider Based Clinics:

We are the last hospital in Vermont and possibly New Hampshire not billing our physician offices as provider based clinics. We plan to implement provider based clinic billing as soon as possible when Medicaid implemented rates changes last year we were penalized for not implementing this reimbursement option. We can no longer afford to forgo the additional reimbursement.

3. ICD10:

We have budgeted additional consulting and training resources to accommodate ICD10 transition. We expect a claims processing slow down during the initial transition.

4. Cost Saving Initiatives:

Continued engagement in our supply chain cost reduction program designed to eliminate waste and improve operational efficiencies in our cost structure (projected savings of \$500,000).

B. Healthcare reform:

Healthcare reform investments

Increase in One Care fees	135,000
Care Coordinator (OB/GYN)	96,265
Expansion of Centralized Scheduling	40,911
Clinical Data Coordinator (ACO & PCMH)	36,400
Internal Medicine Scribe Pilot	41,371
Administrative Director for Population Health	106,250

	456,197

1. Increased One Care ACO fees

2. Care Coordinator (OB/GYN):

In collaboration with BMH, One Care & our Community Health Team, the Care Coordinator will coordinate the evidence-based, cost-effective care of OB/GYN patients with the goal of improving both the health and self-management skills of this patient population. The Coordinator will address those opportunities to improve patient care which are identified through One Care reporting efforts and other sources.

3. Expanded Centralized scheduling project

Improved access for new patients through centralized intake and medical record data entry. Potential efficiencies in referral management, triage and medication refills as well as expanded patient panels via increased visibility and ease of access

4. Clinical Data Coordinator:

Resource to provide clinical information for ACO and Patient Centered Medical Home reporting requirements and basis for community focused initiatives coordinate by ACO Steering Committee and RCPC.

5. Scribe Pilot:

Pilot project focused on improving current physician satisfaction and retention as well as a recruitment tool for new primary care physicians. Anticipate improved patient access, volume and throughput.

6. Administrative Director for Population Health:

Partner with the Medical Director of Population Health to coordinate, and execute all efforts related to Population Health and Report.

C. Net Revenue Budget to Budget changes

- 1. **Net Patient Service Revenues (NPSR)** increase 3.8% from the Fy2015 budget. After accounting for the change in Disproportionate Share Payments (DSP) NPSR increases 3.5% from the budgeted Fy2015 levels.

	Budget 2016	Budget 2015	change from prior budget	
Gross patient service revenue	154,843,759	149,742,176	5,101,583	3.4%
Deductions from revenue				
DSP	889,343	1,100,858	(211,515)	-19.2%
Bad Debt & Free Care	(8,162,278)	(7,365,426)	(796,852)	10.8%
Deductions from revenue	(73,577,662)	(72,193,035)	(1,384,627)	1.9%
Net patient service revenue	73,993,162	71,284,572	2,708,590	3.8%
add back decrease in DSP		211,515	(211,515)	-0.3%
	73,993,162	71,496,087	2,497,075	3.5%

2. Reimbursement:


- **Medicare** reimbursement is budgeted based on the proposed rule for Fy2016. The overall Medicare net as a percent of gross is projected to increase to 37.7% compared to 33.2% budgeted for fy2015.

Medicare	Budget 2016	% of gross	Budget 2015	% of gross	Projected 2015	% of gross	Actual 2014	% of gross
Revenue	67,880,284	100.0%	64,115,581	100.0%	64,436,580	100.0%	60,862,736	100.0%
deduction	(42,283,670)	-62.3%	(42,741,984)	-66.7%	(40,611,339)	-63.0%	(37,729,007)	-62.0%
net	25,596,614	37.7%	21,373,597	33.3%	23,825,241	37.0%	23,133,729	38.0%

Medicare Dependent Hospital (MDH) and Low Volume Provider (LVP) provisions have been restored until March 31, 2017. Provider based clinic reimbursement is assumed 

- **Medicaid** reimbursement rates have been budgeted at **current levels**. The Medicaid net as a percent of gross is being budgeted to decrease to 30.1%, compared to the 30.8% budgeted for fy2015. Provider based clinic reimbursement is assumed.

Medicaid	Budget 2016	% of gross	Budget 2015	% of gross	Projected 2015	% of gross	Actual 2014	% of gross
Revenue	29,533,149	100.0%	26,610,850	100.0%	28,241,811	100.0%	25,155,195	100.0%
deduction	(20,640,688)	-69.9%	(18,396,331)	-69.1%	(20,628,884)	-73.0%	(17,738,980)	-70.5%
net	8,892,461	30.1%	8,214,519	30.9%	7,612,928	27.0%	7,416,215	29.5%

- The net to gross rate for all other payers is being budgeted at 81.5% compared to 81.3% budgeted for fy2015. 

Others	Budget 2016	% of gross	Budget 2015	% of gross	Projected 2015	% of gross	Actual 2014	% of gross
Revenue	57,430,327	100.0%	59,015,745	100.0%	58,340,375	100.0%	56,594,532	100.0%
deduction	(10,653,304)	-18.5%	(11,054,719)	-18.7%	(10,364,998)	-17.8%	(9,600,306)	-17.0%
net	46,777,023	81.5%	47,961,026	81.3%	47,975,378	82.2%	46,994,226	83.0%

- **Bad debt** is budgeted at 3.3% of gross revenues and **Free care** at 2.0%. These rates are slightly greater than budgeted last year and less than we are experiencing this year. BMH provides charity care for patients with income up to 300% of the federal poverty level.

	Budget 2016	% of gross	Budget 2015	% of gross	Projected 2015	% of gross	Actual 2014	% of gross
Gross Patient Service Revenue	154,843,759	100.0%	149,742,176	100.0%	151,018,766	100.0%	142,612,465	100.0%
Bad debt	(5,039,965)	-3.3%	(4,545,944)	-3.0%	(5,070,688)	-3.4%	(4,332,029)	-3.0%
Free Care	(3,122,313)	-2.0%	(2,819,482)	-1.9%	(3,675,621)	-2.4%	(2,635,386)	-1.8%

- **Disproportionate Share Payments (DSP)** are budgeted at the level calculated by OVHA for sfy2016. The **provider tax** continues to increase.

	Budget 2016	Budget 2015	Projected 2015	Actual 2014
DSP	889,343	1,100,858	1,100,858	936,015
Provider tax	4,284,133	4,195,955	4,250,134	4,169,495

D. Rate request

1. Patient Service Revenues

Gross revenues increase 4.7% from last year's budget before changes in rates.

<u>Revenues</u>	FY2016	FY2016 -	Variance from current	FY2015	FY2016 before rate	
	Proposed	before rate			increase - variance from	
	Budget	increase	rates	Budget	Fy2015 budget	
Imaging	30,032,655	30,032,655	0 0.0%	29,130,043	902,612	3.1%
Physician Practices	20,985,619	20,985,619	(0) -0.0%	19,613,974	1,371,646	7.0%
Perioperative & anesthesia	20,643,056	20,643,056	0 0.0%	20,588,816	54,240	0.3%
Lab	16,294,996	16,294,996	0 0.0%	17,133,503	(838,507)	-4.9%
Emergency Room	15,332,218	17,035,798	(1,703,580) -10.0%	14,109,878	2,925,920	20.7%
Drugs & IV Therapy	14,878,257	14,878,257	0 0.0%	12,464,223	2,414,034	19.4%
Med / Surg / SCU	12,883,120	12,883,120	0 0.0%	12,744,671	138,449	1.1%
Medical / surgical supplies	5,625,505	5,625,505	0 0.0%	5,728,254	(102,749)	-1.8%
ER & Hospitalist Physicians	4,944,558	4,944,558	0 0.0%	4,468,332	476,226	10.7%
Clinics	4,238,083	4,408,729	(170,646) -3.9%	4,374,373	34,356	0.8%
Birthing Center	3,664,393	3,664,393	0 0.0%	4,335,588	(671,195)	-15.5%
Rehabilitaion services	3,495,574	3,495,574	0 0.0%	3,367,571	128,003	3.8%
Reaspiratory, EKG, EEG	1,825,725	1,825,725	0 0.0%	1,682,950	142,775	8.5%
	\$154,843,759	\$156,717,985	(\$1,874,226) -1.2%	\$149,742,176	\$6,975,810	4.7%

The proposed rate change for FY2016 will reduce gross revenues by \$1,874,226 (1.2%). The charges for most revenue centers are projected to remain the same. The facility charges for the Center for Wound Care and the Emergency Room will be reduced by an average of 10%.

2. Expenditures:

Overall operating expenses are budgeted to increase \$2,442,761 (3.3%). After adjusting for the provider tax increase and health care reform investments, costs increase by 2.57% from the level budgeted for FY2015.

Operating expenses	Budget 2016	Budget 2015	Change	%
Wages (non physician)	24,466,908	23,470,786	996,123	4.2%
Fringe Benefits (non physician)	7,432,385	7,439,129	(6,744)	-0.1%
Physician services & fringes	14,931,476	13,750,589	1,180,887	8.6%
Other expenses	20,531,732	20,365,975	165,757	0.8%
Depreciaion	4,371,699	4,334,586	37,113	0.9%
Interest	249,792	268,344	(18,552)	-6.9%
Provider tax	4,284,133	4,195,955	88,178	2.1%
Total operating expenses	76,268,125	73,825,364	2,442,761	3.3%
less Provider tax increase	(88,178)			
less healthcare reform investments	(456,197)			
	75,723,750	73,825,364	1,898,386	2.57%

3. Meaningful use:

BMH expects to continue to achieve meaningful use of the EMR for the hospital and our physician practices. We have budgeted to receive meaningful use incentive payments of \$520,119 as other operating income in FY2016 down from \$930,851 in FY2015.

E. Considerations from the GMCB FY2014 actual to budget review

Our 2014 actual results exceed our budget, largely due to MDH and LVA uncertainties.

1. Our rate request for 2015 was lower
2. FY2015 Budgeted operating margin was very low at 0.27%.
3. We are currently projecting an operating loss for FY2015.
4. We have included a full year of MDH & LVA reimbursement for FY2016
5. We are proposing an aggregate 1.2% rate reduction in FY2016.
6. Overall payor mix hasn't changed dramatically. We have seen a small increase in Medicare and Medicaid.

	Budget 2016		Budget 2015		change from prior budget	
Gross patient service revenue						
Medicare	67,880,284	44%	64,115,581	43%	3,764,703	6%
Medicaid	29,533,149	19%	26,610,850	18%	2,922,299	11%
Other	57,430,327	37%	59,015,745	39%	(1,585,418)	-3%
	154,843,759	100%	149,742,176	100%	5,101,583	3%

7. As discussed earlier, we are seeing increased levels of bad debt and free care. We have only slightly increased our estimated for this, but our current experience is considerably higher than budgeted for FY2016. We believe that the increase is the result of more insurance coverage with higher deductibles.

8. Operating margin:

The operating margin is budgeted to remain at a very low level (0.1%) in recognition of the need to hold down health care costs to our community.

	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012	5 year
	Budget	Projected	Actual	Actual	Actual	Cumulative total
Net Revenue	76,348,938	74,683,887	75,309,785	69,463,138	68,833,644	364,639,393
Operating gain	80,813	(440,158)	2,697,579	2,348,409	3,624,933	8,311,577
Operating margin	0.1%	-0.6%	3.6%	3.4%	5.3%	2.3%

Over a longer time frame, our objective is to maintain an average operating margin of at least 3%. At this point we have dropped to a 2.3% 5 year margin. This level of return does not represent a sustainable

return for such a capital-intensive operation as a community hospital. **More than anything else,** inadequate reimbursement from Medicare and Medicaid is driving the cost shift and this low level of margin. If reimbursement levels decline further, this hospital will be unable to maintain a reasonable margin and that will ultimately challenge our continued existence.

F. Capital Budget

The capital budget for FY2015 is \$4.5 million. The only items included in FY2015 in excess of \$500,000 is an upgrade of our current EMR for 2.75 million. There are several projects that may require CONs included in for 2017.

1. In FY2017 BMH is investigating replacing our existing surgical suites to comply with current codes and surgical standards for size, configuration and equipment. We will also need to provide space for dislocated functions and offices and replace our aged boiler plant. The projected cost (\$13.8 million) for these projects are based on very preliminary estimates and better information will be included when the CON applications are prepared.

2. Transfers to parent organization and other organizational changes

We have budgeted a transfer of \$300,000 from our parent organization in FY2016. These are the projected proceeds from the community fund drive to rebuild the Emergency Department.

G. Outpatient visits

We count all hospital accounts and subtract Emergency and Inpatient accounts. We do not include physician office visits at this time. I do not see how this is a very useful statistic.

H. Community Health Needs Assessment (CHNA) status

We are currently involved in updating our CHNA.

Summary

Our Mission is to provide community based, quality health services delivered with compassion and respect. Our Vision is to provide the best patient experience for every patient, every time and to be the best place to work for employees, volunteers and medical staff". This budget will allow BMH to continue to serve that mission and vision in a responsible and cost efficient manner.

If you have any questions, please feel welcome to call me.

Sincerely,



Michael O. Rogers
Vice President - Finance
(802) 257-8279

Cc: Steve Gordon