Porter Hospital

FY 2016 Budget Submission

Executive Summary

Porter Hospital's budget for FY16 has been designed to promote important continued reinvestment in valuable core community services while allowing the organization to prepare itself for future challenges. While the operating margin for the FY16 budget is 0.4%, the total margin is 4.7% driven heavily by nearly $3M of 340(b) pharmacy net proceeds.

Porter continues to improve its financial health, evidenced by the positive trend in Days Cash on Hand. Moving from levels of 65 and 82 in FY13 and FY14 respectively, Porter is forecasting approximately 90 DCOH for year-end FY15 and approximately 95 for year-end FY16. One significant cash challenge for FY16 will be the likely implementation of ICD-10 on October 1, 2015. Porter believes that it is preparing itself appropriately but shares the concerns of the rest of the industry regarding the likelihood of a perfectly smooth transition.

After two previous years of significantly deferred capital spending, Porter will reinvest approximately $4M during FY15 and plans to expend a similar amount during FY16. Through the rejuvenation of clinical technology, Porter remains positioned to be a stable, reliable provider of highly valued medical services to the citizens of Addison County.

One other important cash challenge is the underfunded status of the organization's previously frozen Defined Benefit Pension Plan (frozen in 2007). While Porter has consistently met minimum ERISA funding requirements, as well as having consistently recorded the appropriate balance sheet liability per FASB, the true underfunding of the plan is significant. Substantial increases in annual Pension Benefit Guaranty Corporation premiums and the general risk of investment returns vs. interest rates provide motivation for addressing this underfunding. Therefore, Porter plans to provide a contribution of $1M in FY16.

In summary, this budget will provide balance to growth and reinvestment initiatives. It will provide the funding necessary to improve and sustain service delivery and ensure the availability of consistent, reliable and high quality service.

Health Reform Investments

Porter is involved in multiple health care initiatives across the organization. Many of these efforts are integrated into daily work with the goal of improving patient outcomes, improving the patient's experience, and decreasing cost. Our initiatives include:

- Active Participation in the OneCareVermont ACO
- Full Implementation of the Vermont Blueprint for Health/ACO Integration & CHAT
- Introduction of a new Care Coordination Learning Collaborative
- Establishment of a "Transitions of Care Committee"
- Re-admission Project
- NSQIP
- New Emergency Department Case Management Project
- NCQA Patient-Centered Medical Home (PCMH) Recognition (for all PPM Primary Care Practices)
- End of Life Care (Including Creation of our first Palliative Care Inpatient Room)
- Expansion of Suboxone Services for Opiate Dependency Patients
- Successful Meaningful Use Attestations (Use of EMR Data for Improved Patient Care)

Porter will continue to participate in the OneCareVermont ACO, including Medicare, Medicaid and Commercial (Exchange) products. Just as last year, concerns remain over the existence of any true financial return on investment for Porter Hospital. While the original funding request by OCV was made at $408K, Porter has requested that OCV reconsider its methodology. Porter has instead budgeted $130K using an allocation based on net patient service revenue by participating organization.

Porter has committed considerable resources towards integrating the Blueprint for Health with OneCareVermont ACO. In January 2015, the OneCareVermont RCPC joined forces with the Blueprint UCC to form CHAT, (Community Health Action Team). The CHAT group is continuing the work which was described in our fall 2014 GMBC presentation in Middlebury, focusing on integrating the work of the many agencies in Addison County which provide care for our community. The major initiative of CHAT (our version of the UCC/RCPC) at this time is to take advantage of the expansion of Vermont's year-long "Integrated Communities Care Management Learning Collaborative". Two key priorities of the collaborative are: to better serve all Vermonters (especially those with complex physical and/or mental health needs), reduce fragmentation with better coordination of care management activities and to better integrate social services and health care services in order to more effectively understand and address social determinants of health (e.g., lack of housing, food insecurity, loss of income, trauma) for at risk Vermonters. Over the next year and with guidance and support from a skilled quality improvement facilitator our multi-organizational team will: identify existing care management services and resources as well as gaps in services, agree on criteria to define at-risk people, determine which at-risk people will initially receive outreach for integrated care management services, implement and test best practices for integrating care management

across multiple health and social service organizations, provide shared learning opportunities for participating organizations, and develop and collect measures of success and accountability.

Pre-work on the Care Coordination learning collaborative has already begun (multi-organizational team has been organized with an informational meeting with Facilitator taking place on 6/30/15). Official kick-off will take place in September 2015.

Porter is focusing significant attention to "Transitions of Care". Our immediate work includes transitions from the hospital to Helen Porter Nursing Home, from the Emergency Department to Primary Care, and from the hospital to Primary Care. Our goal is to ensure that all patient's transition seamlessly from one setting to another to allow for continuous, ongoing health care.

As the next step, Porter Hospital, in collaboration with Porter Practice Management, other local Primary Care Practices, and community agencies has begun the process of identifying areas for improvement in terms of transitioning patients between care settings. The overall goal of this collaborative work will include improved patient outcomes and decreased readmissions to the hospital.

Porter Hospital, in collaboration with several other Vermont hospitals and the Vermont Program for Quality in Health Care, has signed formal agreements to participate in NSQIP, the National Surgical Quality Improvement Project. The goals of this project include decreasing surgical site infection and complication rates, improving overall surgical outcomes for our patients and identifying areas for improvement in terms of clinical efficiencies and cost effectiveness.

Porter recognizes that our HSA rate of ED utilization represents an area for potential improvement. In order to address this opportunity, we have added 12 hours a week of nurse practitioner time specifically to focus on high utilizers of our ED and to work with others to coordinate the care for these individuals.

All six of our primary care practices continue to be recognized patient centered medical homes. Five of our practices have achieved a level two recognition. The Patient Centered Medical Home initiative requires ongoing work with a current focus on care management, quality improvement, and outreach to patients. We are working toward aligning clinical quality measures with the OneCareVermont ACO measures. We have successfully incorporated community health team members, including Behavioral Health Specialists, Dietitians, and Care Coordinators, into all of our primary care practices.

Porter has a total of four ARCH (Addison Respite Care Home) rooms located at Helen Porter Nursing Home and, most recently, at the hospital for end of life care. We have several

committees that focus their work on ethics, spiritual care, palliative and end of life care. We participate in collaboratives with area agencies, and will also be participating in a collaborative training session in September with Dr. Barnard. Foundational work will begin this summer so that we can focus our efforts and be very intentional about what we need to accomplish.

In response to a serious public health need and our most recent "Community Health Needs Assessment" report, Porter has successfully introduced and expanded Suboxone services at its primary care practice in Bristol. Dr. Emily Glick has received a waiver permitting treatment of up to 100 patients, while three other physicians at Bristol have received waivers permitting treatment of up to 30 patients each. On March 28th, 2015 a target of 51 Medicaid patients was achieved, with an all payer panel totaling 75. Porter has set a target for December 31, 2015 of reaching 76 Medicaid patients and an all payer panel totaling 100+. There have been numerous success stories emulating from this important program, in which successful participants have responsible roles at work or within their family. Just as in FY15, the provision of this program comes at a cost which exceeds current reimbursement. Porter estimates that the budget deficit attributable to the Suboxone program is approximately $100K. In terms of a more global return on investment, Porter believes that perhaps fewer emergency visits (estimated 50 on an annual basis) have occurred from this patient class since the inception of the program.

Porter has thus far been successful at achieving meaningful use of our electronic health record. There are ongoing efforts to continue to meet the measures and intent of the meaningful use program.

Hospitalist Services

Initially, the Porter hospitalist program had consisted of two MD's working 24/7, every other week on an unsustainable schedule. The physicians were employed through an outside vendor, who also provided billing and revenue cycle support for their services. The net receipts were treated as a subsidy and credited against the purchased service expense incurred by Porter Hospital. Faced with the need to increase the number of professional staff, Porter chose to terminate its agreement with its outside vendor effective April 1, 2015 hiring the hospitalists and their staff directly. Through this change, Porter took on the revenue cycle responsibilities and mitigated both administrative and overhead charges incurred by its outside vendor. In total, the hospitalist staff is now comprised of 3 MD's, 2.2 NP's, and 1.75 FTE of support staff. Porter was successful in limiting the net budget to budget increased cost of the program to approximately $142K.

Net Patient Service Revenues

Porter Hospital is requesting a budget to budget net revenue increase of 4.0% which includes 0.68% of hospitalist revenue previously included as an offset to purchased service invoices.

- **Utilization**

For inpatient and outpatient services, Porter has set its volume budget consistent with FY15 forecast values. Porter has seen an increase in Swing Bed volume, which is believed to have been existent in the past but simply more accurately identified over the last year or so. An increase in Porter Practice Management visits is primarily due to the filling of vacancies, both anticipated and unanticipated during FY15. Porter assumes that the increase in NPSR pertaining to utilization will be approximately $462K

- **Rate Request**

The aggregate effect of Porter's request for an increase in charges is 5.3%, though it is a proposed 8% increase on most inpatient and outpatient services (zero percent for physician services). Excluded services will include those that are priced relative to cost such as chargeable medical supplies, pharmaceuticals, and outside lab services. Porter believes that the realization from this rate increase will be approximately $946K.

- **Revenue changes from payers**
    - Medicare – Porter Hospital continues to qualify as a Critical Access Hospital, and is therefore eligible for cost based reimbursement on all inpatient and outpatient services. Physician services have been budgeted in accordance with recent regulations which provide an increase of 0.5%.

    - Medicaid – Porter has budgeted zero percent increase in Medicaid based on current state regulations.

    - Disproportionate Share (DSH) – As a result of the new allocation, Porter's distribution will be $461K less than FY15.

    - Other – negotiated increases with other insurers will increase NPSR by approximately $734K

Price Transparency

In the interest of trying to provide patients and community members with the best possible information about health care costs, Porter Hospital has created a link from its Porter Medical Center internet home page, which lists gross charge amounts for those procedures most commonly utilized and most commonly inquired upon. Given that a patient who is being treated at Porter may incur costs from several independent providers for the same procedure, we acknowledge that this web site provides only a partial picture of total expenses.

Operating Expenses

As previously noted, Porter Hospital changed its model for providing hospitalist services which has an overall net impact of $142K of additional cost; however, the gross impact on operating expenses is an increase of approximately $639K. After accounting for this change, the remaining budget to budget increase in expenses is approximately 3.1%. Applying this consistently to Salaries Expenses, the resulting budget to budget increase after accounting for this change is approximately 4.9%. Porter Hospital is continuing to address wage compression issues based on market data. The addition of the hospitalist staff as employed personnel comprises virtually all of the net FTE change for Porter (5.95 additional hospitalist FTEs vs. 5.6 FTE total change).

Porter Medical Center is scheduled to close on a joint refinancing of Porter Hospital and Helen Porter Nursing and Rehabilitation Center long term debt on August 6, 2015. The outstanding balances for the hospital and nursing home respectively are $12.8M and $3.2M. Currently, both existing bond issues are backed by a Letter of Credit provided by TD Bank, and are subject to annual, subjective rate negotiations based on performance and market conditions. The current “all in” rate with TD Bank is approximately 1.95%. The new Direct Purchase Bonds will feature a 20 year issuance with a 10 year fixed rate, funded by Peoples United Bank. Recently, the appropriate quotable rate has ranged from approximately 2.5% to 2.8%, however the final rate will be determined on the closing date. Porter Hospital believes that this refinancing will substantially mitigate interest rate risk throughout the loan period.

Porter Hospital has committed to the replacement and conversion of its existing boilers to accommodate natural gas. Porter has been working closely with Efficiency Vermont on this and several other facilities projects. The estimated completion of the installation is mid-September; therefore Porter has assumed improvements/reductions in energy consumption for the forthcoming budget year. Porter Hospital anticipates savings during FY16 of at least $135K based on the use of compressed natural gas and potentially more via the use of piped natural gas.

Early in FY15, Porter Hospital accepted the resignation of one of its otolaryngologists, leaving one full time specialist to support the practice. The recruitment to replace this key role has been challenging, yet Porter continues to have significant demand for these services. Porter has therefore included it its budget the cost of a locum tenens specialist. This change accounts for 4.9% of the year over year Purchased Service increase.

Capital Budget

Porter has carefully scrutinized its proposed capital investments for FY16, which comprises a total reinvestment of $3.5M. The following list highlights slightly more than half of the assets that Porter plans to invest in for the forthcoming budget year:

- **Key clinical replacements include**
  - Philips Server for bedside monitoring - $220K
  - Ultrasound Unit - $180K
  - Digital X-Ray Equipment at CVO- $130K
- **Plant and facility infrastructure improvements include:**
  - Elevator repairs - $153K
  - Parking Lot Resurfacing - $105K
  - Facilities Master Plan - $150K
  - PPM Practice Expansion AAOB/GYN - $250K
- **IT Hardware and Software purchases - $1M**
  - Infrastructure (Scheduled Replacement and Upgrades) - $650K
  - Payroll & HR Software Install, and Benefits Interface - $175K
  - Workstations On Wheels (“WOWs”) Replacement - $50K