May 14, 2020

To: Health District Board, Budget Committee Members, and Harney County Citizens

From: Catherine White, CFO

Subject: Harney County Health District Budget Message for Fiscal Year 2020-2021

The following pages summarize the budget in detail and provide some of the thought processes in arriving at the coming year's budget figures. When reviewing the budget, keep in mind that the projected fiscal year 2019-2020 revenues and expenses are based on the activity for the first eight months of the fiscal year beginning July 1, 2019. This means that, in some cases, the projected number will be higher or lower than the final year result based on when expenses are incurred during the year.

Since mid-March, we have experienced a significant decrease in patient volumes due to the COVID-19 Pandemic. Per the governor's orders, we stopped non-emergent procedures and drastically reduced clinic visits. The volume reductions resulted in monthly revenue decreases of $550,000 in March and $1,448,000 in April. In May, we have been able to slowly add back surgical procedures and have been steadily increasing our clinic and other outpatient visits. I am estimating a decrease in May revenue of $400,000 from average. To account for this, I have included a reduction in current year projected revenue of 8% ($2,964,256) on the Combined Income Statement and Statement of Cash Flows (see pages 1 & 2).

<u>Revenue</u> (see page 3)

This budget is built on a price increase of 6% for both inpatient and outpatient services in most hospital departments. This increase is a necessary measure to cover the rising costs of benefits, supplies, pharmaceuticals, and services. At the same time, I have reduced the budgeted revenue by 5% to account for a continued COVID-19 volume decrease. I think this is prudent given that we may not return to typical volumes by the beginning of the new fiscal year. For informational purposes, each 1% reduction in volume has a negative impact of $310,550 to net income.

The only area in which we have budgeted a volume increase is IV Therapy. Due to changing pharmacopeia standards, the infusion program essentially shut down in January (reducing the year-to-date volume) and will remain drastically reduced until the pharmacy remodel is complete in June. The budget reflects what we would expect to be more 'normal' volumes as this program should be up and running again for the new fiscal year.

Other Revenue **(see page 4)**
Other revenues consist of non-patient revenue, including cafeteria sales, ambulance memberships, 340B outpatient drug discount program revenue, and home health revenues. At first glance, other operating revenue may look like it is budgeted high compared to projected. However, the projected 2019/20 revenue does not include Shared Savings receipts which we received in April.

Deductions from Revenue **(see page 5)**
Deductions from revenue include insurance contractual write offs, bad debt, charity care and administrative adjustments. These numbers have been budgeted to be in line with the current year expected contractual percentages. We have also added contractual adjustments for the Specialty Clinic this coming year. I have made these contractual adjustments higher than our typical adjustments to be as conservative as possible.

Depreciation Expense **(see page 5)**
The budgeted amounts for depreciation expense are higher for the coming year. Building depreciation increased 14% due to the Clinic, Pharmacy and Racine building remodel projects. Equipment depreciation increased 8% to account for purchases completed this year as well as partial year depreciation on proposed new equipment purchases in the coming year.

Salaries & Wages **(see page 6)**
There are some noticeable changes to salary expenses budgeted for the new fiscal year. Specific points:

- ✓ We feel it would be prudent to assess the District's financial situation over the next several months given the state of the economy before implementing a hospital-wide wage increase. Therefore, we have budgeted non-union employee wage increases at 2% beginning January 1, 2021. Hopefully, things will stabilize before January and we may, at the Board's discretion, implement a wage increase sooner. Each 1% increase in wages results in $78,500 more expense to the bottom line.
- ✓ We completed salary surveys for our positions relative to other Oregon hospitals that are similar to ours and have determined that some positions need adjustment to remain competitive in the market. These positions include the Safety and Security manager (10%), maintenance workers (10%), physical therapy aides (5%), pharmacy techs (5%), EMS Manager (5%), Lab Director (3%), HR Admin Assistant (5%), and have added $1 to the CT Scan modality differential. These market adjustments total $58,150 including the increased cost of benefits.
- ✓ The Nursing Department shows a 10% increase in overall wages. This includes the 2.5% wage increase effective 7/1/2020 per the ONA contract negotiated last

year. This additional 7.5% increase assumes the department is fully staffed. Throughout this year, we have consistently had several vacant positions.

- ✓ I have separated the Emergency Department from the Nursing Department. We have been working to revise our physician staffing model to improve recruitment and retention of providers. In the past, the ER has been staffed by a mix of our clinic providers and locums, which can quickly lead to burnout of our employed physicians. We will have two full-time employed ER physicians providing 4 days of ER coverage per week. We have also hired two ER Techs who are also EMTs. There has been a shortage of available EMTs during the day for EMS. Rather than hire two EMTs within the EMS department who would be idle when not on ambulance calls, the ER Tech will have meaningful work to do in the ER with assisting nursing staff while also being readily available for ambulance calls.
- ✓ Surgery RN's staff the IV Therapy Department. They track their time spent in Infusion so that the cost can be allocated to the department. The projected year-to-date is a little lower than we would expect, however, we did greatly reduce infusions Jan 1 as previously mentioned. We have budgeted for additional time in IV Therapy in the coming year to correspond with the expected volume increase.
- ✓ We recently hired an Imaging Department Manager, Christa Kaino, who has been a casual employee of the department for several years. We also have one vacant CT/Imaging Tech position, which is budgeted for in the coming year, resulting in an increase in budgeted FTEs (full-time equivalents) for the department. There is a corresponding decrease in contracted services and supplies to remove the Imaging traveler expense that was incurred this fiscal year.
- ✓ We are budgeting for a full-time evening Lab Tech, which was previously filled by a traveler. So, the FTE for the department increased from 6.2 current year to 7.0 budgeted, but there is a corresponding decrease in services and supplies.
- ✓ Physical Therapy continues to recruit for an Occupational Therapist (OT). The OT was budgeted for half the year. Additionally, one Physical Therapy Assistant (PTA) is now working part time so the department is recruiting for an additional part-time PTA to fill the gap.
- ✓ The credentialing staff member who was added last spring has been expensed to the Administration Department in the current year. We moved the employee to the Med Staff Department for next year's budget.
- ✓ Family Care Clinic will see some changes in the coming fiscal year. We are budgeting for four full-time, non-physician providers as compared to the current year in which we have had one, Amanda Jewell. Both Thor Hauff and Mary Schimmelfennig are now working in Family Care and we have two new providers starting in late summer/early fall. In working on our provider recruitment and retention model, we have added a second OB/GYN, Dr. Peter Cabala, who will begin early fall and rotate with Dr. McNamara to provide OB/GYN services. Additionally, we hired a part-time physician, Dr. Homertgen, to join Dr. Vanyo as a primary care provider and will continue to recruit for one additional full-time physician in the clinic to replace Dr. Johnston who has moved to the Emergency Department position. We have not had luck in finding a Behaviorist for Family Care, but have budgeted for one for half the year and will continue to seek out a candidate to fill this vacancy. Even with these changes, the budgeted FTEs are consistent with the current year.

- ✓ Specialty Care Clinic is a new budgeted department. It will be located at the Racine Building (where the Veteran's clinic is housed until they relocate next month). Our surgery clinic and the Orthopedic Nurse Practitioner, Brad Mangum, will move to the Specialty Care Clinic. Our visiting specialists groups will also use this clinic to see their patients, which will free up space for our providers in Family Care. I have allocated 10% of the surgeon salary to this department, and we added 2.5 Medical Assistant positions, 1 Patient Services/Registration employee, and moved the Ortho PA cost and FTE to Specialty Care.
- ✓ We added one FTE in Environmental Services to supplement our staff and ensure that we have adequate staffing to clean the Specialty Care Clinic.
- ✓ Finally, Safety & Security requested one full-time day shift position be added for Monday through Friday coverage. With high levels of traffic in and around the campus during the week, it would be prudent to have a person dedicated to ensuring our grounds and facilities are monitored regularly.

<u>Benefits and taxes</u> (see page 6)

The PERS retirement rates are as follows:

	07/01/2019-06/30/2021
Tier 1/Tier 2	21.79%
OPSRP	16.73%

The increases for benefits are fairly in line with the overall increase in salaries. We continue to work on adding an alternative retirement plan for new staff to choose from and will likely have this up and running in the next couple of months. This was delayed because a vast majority of our time recently was dedicated to COVID-19 preparations.

<u>Capital Expenditures</u> (see page 9)

We have requested $1,013,341 for capital equipment and projects. It is our intention to purchase only a few time-sensitive line items in the first half of the fiscal year and delay the purchase of the other requested equipment until we have a better grasp of the overall financial implications of COVID-19.

The time-sensitive items we will need to consider purchasing in the first or second quarter of the fiscal year include:

Nursing – A new, safer patient lift ($10,000) to assist with ambulating weak patients and the Novi Wireless Monitoring System ($7,500) to improve remote monitoring of laboring obstetric patients

Infusion – Patient cardiac monitor ($7,000) to replace a very old cardiac monitor

EMS – Zoll patient monitor/defibrillator ($30,000) – final replacement of old monitors so all four ambulances have the same monitor. Additionally, EMS has requested new extrication gear ($10,000) to replace heavy, awkward, and outdated extrication equipment on the fourth ambulance

Facilities – Hospital Roof ($60,000) to find and replace the portion of the roof that is attributing to the frustrating (and likely damaging) annual water leak in the Imaging Department

Information Technology – Mitel Phone System ($10,795) update to software for phone system to function properly – current software will sunset September 2020

Specialty Care – Remodel Racine Building ($450,000) to accommodate new services being provided in this location

Interest, Debt Payments (see page 10)
Debt payments with interest total $1,239,852 for the fiscal year. We may consider requesting a USDA Facilities Loan to assist in the remodel of the Specialty Clinic. This would allow us to qualify for an equipment grant of up to $50,000 for the various equipment needed for the Racine Building. We have budgeted minor equipment for this department to be $49,950 (see page 43) which includes seven patient exam tables, blood pressure monitors, a high-powered lamp, a wheelchair, office furniture, and various other lower-priced items.

Cash Flow (see page 2)
Cash is very interesting this year. We received stimulus money, applied for and received Paycheck Protection Program funding as well as Medicare Accelerated Payments to assist the District in maintaining a healthy cash balance during the COVID-19 Pandemic.

The District received $5,267,532 in Medicare Accelerated payments. This amount covered six months of anticipated Medicare patient payments. Medicare will recoup these payments during fiscal year 2021 through claims processing.

The CARES Act Stimulus funds and grants totaled $4,290,477. We do not anticipate having to pay these funds back.

Finally, the Paycheck Protection Program provided the District with a loan amounting to eight weeks of salaries and benefits totaling $2,999,350. This is a loan that, if substantially used for salaries and benefits, is forgivable following an audit process. We do not anticipate having to pay this back.

With these funds and our current balance of general fund cash, we anticipate having approximately $18 million to start the new budget year and approximately $12.3 million at the end of Fiscal Year 2021.

I look forward to the Budget Committee Meeting on Wednesday, May 27 at 3 p.m. If you have any questions while you are reviewing the budget, please contact me at 541-573-5187 or cwhite@harneydh.com so that we can get all of your questions addressed before or at the budget meeting. Thank you for taking the time to be a part of this Committee. Your participation in this process is greatly appreciated.