Harney District Hospital

May 13, 2021

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 2021-2022

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 2021-2022 revenues and expenses are based on the activity for the first seven months of the fiscal year beginning July 1, 2020. 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.

Revenue (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 helps to cover the rising costs of benefits, supplies, pharmaceuticals, and services.

Revenues have also been adjusted for volume increases. HDH experienced a drastic slowdown in services at the end of the 2020 fiscal year and had some carryover of that for many months in our current fiscal year, but in recent months we have experienced higher volumes in most of our departments. We have created a new nursing leadership structure to support the growth of our inpatient and swing bed services and will be focusing our efforts on returning these volumes to what we have experienced in years past.

In terms of the budgeted increase to outpatient revenue, we will also have two new physicians starting full-time employment in the Family Care Clinic this summer, so volume increases have been made to ancillary departments (imaging, cardiopulmonary and lab) to account for this. We have also included an increase in the IV therapy department as we were slowed down in early 2020 by the need to remodel due to the

USP800 standards. We are also anticipating hiring a dedicated infusion nurse to support the program through outreach to referring providers.

<u>Other Revenue</u> (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 current year. However, the Shared Savings revenues we would have normally received in the current fiscal year were paid out during last fiscal year to help hospitals out at the start of the pandemic. As we have been doing very well on our quality metrics, we hope to see Shared Savings in excess of what we have conservatively budgeted.

In the past, our 340B drug discount program, has been set up to recapture savings through third party pharmacies. We now have our Pharmacy department set up to participate in the 340B program for outpatient pharmaceuticals. HDH will be able to recapture savings on our highest cost medications including infusion drugs. The analysis of prior year's outpatient medication expense showed that we would be able to recapture approximately $250,000 in additional savings. The budget reflects this increase.

<u>Deductions from Revenue</u> (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.

<u>Depreciation Expense</u> (see page 5)
The budgeted amounts for depreciation expense are higher for the coming year due to the full year depreciation of our newest building assets (the Specialty Care Clinic remodel and the Pharmacy remodel). We've also accounted for some depreciation for capital assets we intend to purchase in the coming year.

<u>Professional Services</u> (see page 8)
There is a noticeable decrease in Physician's services due primarily to the reduction in locum emergency physicians. HDH will have an additional employed ER physician starting this summer for a total of four employed ED physicians, so there will be very little need for locum providers.

<u>Salaries & Wages</u> (see page 6)
There are some noticeable changes to salary expenses budgeted for the upcoming year. Specific points:

- ✓ We have budgeted the union contractual wage increase of 2.5% and an increase of 2% for all other positions. The cost of the 2% increase for non-union staff is $188,500.
- ✓ In reviewing wage scales and comparing these to similar jobs in the marketplace, we are proposing an increase to our lowest scale position of screener to a minimum of $14.00 per hour starting wage and an increase the other lowest scale

permanent positions to a minimum of $15.00 per hour. We have found recruiting for these positions to be challenging and believe this will improve our chances of finding qualified candidates as well as help improve longevity for our current employees. The positions directly affected by this change are screeners, EVS staff, cooks, admitting clerks, medical records clerks, materials management clerks, physical therapy clerks, and certified nursing assistants. This also have a cascading effect on other lower paid positions such as EMT's, phlebotomists, business office clerks, patient financial counselors, pharmacy technicians, security guards, emergency department techs, community health workers, charge capture specialists, and maintenance workers. The impact of this adjustment is $319,000 in wages and benefits.

- ✓ *Nursing*: The nursing department has experienced a shortage of staff nurses during the current year and we have utilized travelers to supplement our staff. We have restructured this department to include four nurse supervisors - two day supervisors and two night supervisors – that will cover six days per week and part of their duty will be to ensure the provision of nurse staffing to enable more inpatient and swing bed admits. We will continue to recruit new nursing staff and have budgeted for the continuation of some travel nurses. We have also committed to hiring two international nurses for a three year term.
- ✓ *Emergency Department:* We have a new employed ER physician that will be starting in August, Dr. David Mehr. We have also been without on ED tech for most of the current year. We have budgeted for these positions in the coming year.
- ✓ *Imaging:* There is one vacant imaging tech position that is budgeted for next fiscal year.
- ✓ *Physical Therapy*: We added a casual clerk, a full-time PT Assistant, and a half year full-time Occupational Therapist which is a position for which we continue to recruit.
- ✓ *Med Staff:* We added a part-time Chief Medical Officer role in the hopes that we will be able to dedicate some physician time to fulfill the duties of a CMO and potentially begin the development of rural residency program in our community.
- ✓ *Family Care Clinic:* Two new providers will start practicing at Family Care this summer.
- ✓ *Specialty Clinic:* As we did not move into the Specialty Clinic until March, we have very little comparative data on how this department will look financially, but have budgeted for the staffing we anticipate going forward.
- ✓ *Environmental Services:* We have added two extra positions which will help reduce overtime in the department.
- ✓ *Administration & Security:* We have moved the screening staff (4) to the Security department in the coming budget year to follow the reporting structure under which they fall. We have budgeted these positions for the full fiscal year, however, if OSHA changes the requirements for screener in hospitals, we may reduce or eliminate these positions.
- ✓ *Human Resources:* For most of the current fiscal year, we had an HR Director through an outside company. We have since hired the HR Director and have this budgeted for the full year.

Benefits and taxes (see page 6)
The PERS retirement rates are as follows for 07/01/2021-06/30/2022:

Tier 1/Tier 2	21.70%
OPSRP	18.99%

We now have the Alternative Retirement Plan available to new employees and have found this to be a popular option. The AIG Alternative Retirement Plan guarantees up to a 4% match to the employee contribution.

The increases for benefits overall are fairly in line with the increase in new positions and the budgeted cost of living adjustment.

Capital Expenditures (see page 9)
We have requested $1,385,575 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 realize the volume increases that we have projected. The complete list by department with reason for purchase can be found on page 9.

The Hospital Foundation's current capital campaign is for the 3D Tomo Mammography machine. The Foundation intends to raise the entire amount for this purchase.

Interest, Debt Payments (see page 10)
Debt payments with interest total $1,240,215 for the fiscal year. There were no new debt obligations made in fiscal year 2021 and we do not plan to take on new debt in fiscal year 2022.

Cash Flow (see page 2)
Despite lower patient volumes this year, cash has held strong. We had received several pandemic-related payments in the prior year including $4,272,635 in Cares Act grants, $2,999,350 for the Paycheck Protection Program, and $5,267,532 in Medicare Accelerated Payments. At this point, we know that most or all of the Cares Act grants will be forgiven. We are still waiting to hear back on our application for loan forgiveness from the Paycheck Protection Program, but we do not anticipate having to pay this back. Medicare began recoupment of the Accelerated Payments just in the last couple of weeks. Medicare is currently withholding 25% of our Medicare patient payments and will continue to do so for eleven months. After eleven months, Medicare will recoup at a rate of 50% for six months and finally request for any remaining balance to be repaid within 30 days.

We anticipate having approximately $21 million to start the new budget year and approximately $18 million at the end of Fiscal Year 2022 largely due to the recoupment of the Medicare Accelerated Payments.

I look forward to the Budget Committee Meeting on Wednesday, May 26 at 3 p.m. We will send out a Zoom meeting invite for anyone who is not able to attend in person.

As always, as questions arise while you are reviewing the budget, please contact me at 541-573-5187 or cwhite@harneydh.com so that I can ensure that we have ample time to address each of these 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.