

## **‘Everything we do is primary care’**

### **Care**

#### **Grace Cottage’s health care model primed for success**

BY BOB A UDETTE *Brattleboro Reformer*

**TOWNSHEND** — If you were to look at the Green Mountain Care Board’s review of the financial results for Vermont’s 14 medical hospitals for fiscal year 2018, you would notice Grace Cottage Hospital’s budget versus revenue showed a 2.4 percent loss.

But that doesn’t mean the critical care facility in Townshend is actually losing money, said Stephen Brown, Grace Cottage’s chief financial officer.

“It is misleading,” said Brown, who’s been keeping tabs on the hospital’s budget for more than 30 years. “This doesn’t show operating losses. This shows how hospitals didn’t meet what they budgeted.”

Drawing up a budget 18 months in advance while considering all the variables that must be taken into account can be difficult, he said.

“But truthfully, coming to within 3 percent of a budgeted amount is damn good,” said Brown.

Douglas DiVello, Grace Cottage’s chief executive officer, said recent news reports might give the wrong impression that Grace Cottage is struggling to make ends meet.

“We don’t want a graph that is misleading to create the perception in the community that we are the next Springfield Hospital,” he said. “We are clearly moving in the right direction.” On Wednesday, Springfield Hospital announced it was closing its birthing center June 1, one of a number of measures trustees are taking to address nearly \$7 million in losses last year. That deficit forced the hospital to cut 27 jobs and reduce wages.

That’s not going to happen at Grace Cottage, said DiVello.

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**Denise Bartlett, a phlebotomist at Grace Cottage Hospital, takes a blood sample from Jacki Brown.**

PHOTO PROVIDED BY DAVID BARNUM

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#### **PREDICTING A BUDGET**

Even though it appears Grace Cottage lost \$460,000 in fiscal year 2018, just looking at that number doesn’t give someone the complete picture, Brown explained.

“Our bottom line is not a negative number,” he said. “The number that is represented in the report is our patient care revenue minus our operating expenses. This does not look at the hospital’s bottom line, which includes philanthropy, non-operating revenue and investments.”

In fact, said Andrea Seaton, director of Development & Community Relations, Grace Cottage’s endowment is a healthy \$7 million and each year it receives between \$1.2 million and \$1.5 million in donations that go to cover the difference between what was budgeted for operating expenses versus what the hospital actually received for the care it provided.

While Brown can predict, for example, that Grace Cottage might get 1,000 patient visits per year, what services those patients require will vary depending on the circumstances of each of those 1,000 people.

“I have to think about how many patients we might have in the year, but also what types of patients,” Brown said.

“Every patient is d i f ferent,” DiVello said. “And you don’t know what you’re going to get paid because every patient has a different payer source. You don’t know what it’s going to cost to manufacture an episode of care because every patient has different health care needs.” In addition, Brown has to budget for maintenance of the facility, cost-of-living increases for Grace Cottage’s employees, heating oil, electricity, supplies and services, and contracts with outside vendors.

“All of those expenses keep going up,” DiVello said. “Meanwhile, the adjustments in reimbursement from the federal government have been going down.”

“If not down, they don’t go up nearly the same as the rate of inflation,” added Brown.

#### **DEALING WITH UNCERTAINTY**

About 60 percent of the reimbursements Grace Cottage receives comes from the federal government in the form of Medicare and Medicaid payments, Brown said. The rest comes from commercial insurance providers, each of which he has to negotiate with to determine how much Grace Cottage will receive for the care it provides its covered patients.

“The sad reality is, more hospitals than not lose money just on operating expenses,” DiVello said. “It’s because the federal government woefully underpays for health care.”

DiVello said the 2020 budget proposed by the White House, if approved by Congress, could be the death knell for many small community hospitals around the country.

The proposed budget calls for \$1.5 trillion in cuts from 2020 through 2029 by repealing the Affordable Care Act’s expansion of the program and converting overall funding to a block grant or per capita caps to states. However, many budget analysts note the White House’s proposal is probably “dead on arrival,” as there’s not much appetite in Congress to cut programs that directly benefit constituents.

Even, in a worse-case scenario where the proposed budget is approved, DiVello said, “We don’t anticipate it would be a death knell for Grace Cottage. The communities that we serve have been extremely generous and that’s incredibly helpful for us.”

In fact, DiVello said, over the past half-dozen years or so, Grace Cottage's operating budget and its revenues from patient care have been getting closer each year.

"The Green Mountain Care's report shows we're the only hospital in Vermont where the operating margin is actually trending up," said Seaton.

"Our goal is to break even on operations and use the philanthropic and investment income and other sources of income as ways to supplement the need and to invest in new services and programs," DiVello said.

That's not true in many hospitals around the country, especially those that are operated for profit or have shareholders to answer to. "A lot of hospital CEOs and CFOs are trying to figure out how to increase profits," he said. "How do they perform more procedures and surgeries to add to their bottom lines. To me that's counter-intuitive. Do we really want people to be sicker so that they use us more so that we generate more volume and more revenue? Grace Cottage is the antithesis of that kind of mindset."

## **A UNIQUE HEALTH CARE MODEL**

Grace Cottage is focused on keeping its customers healthy so they don't have to go to the hospital for more serious, and more expensive, care, he said. "Everything we do is primary care. That is the economic engine for our business. It's all about reducing the cost of health care by keeping people healthy. And that doesn't hurt us as a hospital because we don't rely on sick people to generate income."

While hospitals around the country are merging or offering services through affiliations, DiVello said, that's not in Grace Cottage's business plan.

"We don't see any need to be formally affiliated with another health care system because we are so unique in what we do," he said. "Our average daily census has actually gone up. We are looking at ways to refer fewer patients to other health care organizations, trying to keep as many here at Grace Cottage because it's what we do."

However, Grace Cottage does make referrals for more serious procedures or for surgery to other hospitals, such as Brattleboro Memorial, Cheshire Medical Center in Keene, N.H., and Dartmouth Hitchcock Medical Center in Lebanon, N.H.

## **NATIONWIDE CHALLENGES**

Grace Cottage could see even more patients if not for the problem of not having enough providers.

"Medical schools are not providing enough primary care providers to meet the growing demand," DiVello said. "Economically there is not a lot of incentive to produce primary care providers because they don't get paid nearly as well as specialists and proceduralists."

Many hospitals are making up for this national dearth in primary care providers with advanced practice registered nurses, he said.

"Here at Grace Cottage we have a nice mix of doctors and advanced practice providers," DiVello said. "But a lot of organizations can't recruit doctors at all. ERs all over the nation are staffed solely by nurse practitioners with no physicians on the schedule at all."

DiVello admitted the United States spends an incredible amount of money on health care.

"It's frightening to think about," he said.

According to the Congressional Budget Office, in 2017, the United States spent about \$3.5 trillion, or 18 percent of GDP, on health care, which is more than twice the average among developed countries. Of that amount, the federal government pays \$1.5 trillion, a number that is expected to rise to \$2.9 trillion in 10 years, or nearly 10 percent of the economy.

"Because the price tag is enormous," DiVello said, "there's the question of where do you take the money? With the chaos in Washington right now, they can't even decide on what time to take lunch."

DiVello pointed out that Grace Cottage is responsible for only .7 percent of health care spending in Vermont.

In fact, Brown said, Vermont has 14 hospitals and 13 of them together aren't as big as the University of Vermont Medical Center, which accounts for half of the health care spending in the state.

"Obviously, Vermont can't afford to lose any of its hospitals," DiVello said.

Fortunately, he said, Grace Cottage is well-positioned to handle whatever the market or Washington, D.C., send its way.

"We are a not-for-profit critical access hospital, owned by the community," DiVello said. "We are a community asset governed by a board of directors who are all volunteers. Their job is to make sure the asset is protected, safe and viable and can survive to meet the needs of the community."

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