SCHNEIDER REGIONAL
MEDICAL CENTER

ROY LESTER SCHNEIDER HOSPITAL | MYRAH KEATING SMITH COMMUNITY HEALTH CENTER | CHARLOTTE KIMELMAN CANCER INSTITUTE

**TESTIMONY TO THE**
**31st LEGISLATURE OF THE VIRGIN ISLANDS**
**COMMITTEE ON FINANCE**
**Thursday, July 16, 2015**

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Good Morning, Honorable Senator Clifford Graham, Chairman of the Committee on Finance, other Senators present, the listening and viewing audience, for the record, I am Dr. Bernard A. Wheatley, Chief Executive Officer of Schneider Regional Medical Center (SRMC). Appearing with me today are members of SRMC's executive leadership team:

- Dr. Luis Amaro, Chief Medical Officer
- Darice Plaskett, Chief Nursing Officer
- Charles Nickerson, Senior Vice President of Operations
- Sherlikia Lewis, Interim Human Resources Administrator
- Tina Comissiong Dickson, Chief Compliance Officer
- Delphine Olivacce, Vice President of Quality and Performance Improvement

and other members of SRMC financial staff:

- Linda McBean, Revenue Cycle Administrator
- Zachary Vineyard, Interim Finance Manager

My team and I appreciate the opportunity to appear before this Committee to present SRMC's recommended Fiscal Year 2016 budget. We will also discuss some of our recent successes, challenges, opportunities and plans for the future.

Schneider Regional Medical Center is the umbrella entity for three facilities; the Roy Lester Schneider Hospital (RLSH), the Myrah Keating Smith Community Health Center (MKSCHC) and the Charlotte Kimelman Cancer Institute (CKCI). As the only safety net healthcare system serving the St. Thomas/St. John district, our mission is to provide comprehensive, quality healthcare to the residents and visitors of the Virgin Islands of all faiths, races, and age, to improve their health and wellness.

## SUCCESSES

### SRMC Strategic Plan

In 2014, the District Governing Board and the SRMC executive leadership team created a new strategic plan for the organization. The plan is divided into 5 key strategies: (1) To Become the USVI Health System of Choice, (2) To Deliver Comprehensive High Quality Care, (3) To Establish and Sustain Financial Excellence, (4) To Develop and Retain Highly Qualified and Motivated Staff, and (5) To Establish State of the Art IT Infrastructure. These priorities are well delineated in our strategic plan and have corresponding goals, deliverables and targets. Each target has been assigned to members of our executive team to be accomplished within a specific timeframe. A copy of the plan attached.

### Joint Commission and CMS Certification

As a healthcare organization, licensed to provide acute patient care services in the territory, we are required to maintain compliance with several regulatory bodies, primarily the Centers for Medicare and Medicaid Services (CMS) and the Joint Commission on Accreditation (TJC). We are proud to report that our facilities continue to meet the regulatory standards for both CMS and TJC for its hospital and laboratory services.

On May 7th, SRMC received its certification of accreditation from the Joint Commission, which will remain in effective for the next three years. On May 21st, SRMC received its official response and survey findings report from CMS. According to the report, the Schneider Hospital has been found in compliance with the Conditions of Participation of CMS, and is not required to submit a plan of correction. However, since Medicare surveys are available for public disclosure, SRMC was given the opportunity to submit comments on its findings. This was completed on June 1, 2015.

SRMC’s ability to successfully complete these rigorous, unannounced surveys is testament to the quality of care our organization provides and the high level of commitment of our medical, nursing, clinical and ancillary staff.

**Hemodialysis Business Venture**

The high demand for hemodialysis services in this territory persists. Even with the addition of two new dialysis centers on St. Thomas, SRMC continues to provide services to approximately 94 patients on a regular basis.

The leadership of this organization understands the demand for these services and recognizes the significant investments required to expand our unit to accommodate the growing need for hemodialysis services. SRMC is continuing plans to engage the DaVita Corporation in a joint business venture to provide hemodialysis services.

We are currently in the final stages of completing a comprehensive due diligence report in coordination with DaVita site visits. We anticipate this venture will help us to accommodate our patients' growing dialysis needs and stem our operating losses of $1.5 million annually.

**eICU collaboration with Baptist Health International**

SRMC collaborated with Baptist Health International (BHI) to enhance the quality and delivery of health care services we provide through the use e-ICU technology. With the implementation of eICU, Intensivists and experienced Intensive Care Unit (ICU) nurses will provide SRMC with remote monitoring of up to four beds in its Intensive Care Unit (ICU) and one in its Emergency Room (ER) through the Baptist Health South Florida (BHSF) e-ICU program. The equipment used to monitor a patient's condition is linked to the e-ICU's remote monitoring center, where computers are specifically programmed for each patient's medical needs.

BHSF's e-ICU will monitor SRMC's ICU and Emergency Room (ER) patients' 24-hours a day, with the same quality of care that is used to monitor the BHSF system's ICU beds. The e-ICU will act as a "second pair of eyes" to support the SRMC ICU clinical staff and to improve patient safety, recovery, and care and reduce ICU length of stay. e-ICU service allows clinicians to have instant access to software monitoring protocols, historical and real-time patient information, and evidence-based decision support. "Virtual rounds" using high resolution video technology enable detailed patient examinations, while the bedside nurse and e-ICU care team provide consultation and intervention through two-way telecommunication.

Implementation of e-ICU will positively affect the way bedside nurses take care of their patients by having access to Intensivists and experienced critical care nurses who can see their patients and records. BHSF and SRMC will work together to evaluate the technological platform necessary to deliver functionality equivalent to BHSF's e-ICU that is adapted to SRMC's local needs.

**Academic Affiliation**

SRMC also recently signed a letter of agreement to help lead and support the University of the Virgin Islands in the establishment of the UVI School of Medicine. Through clinical faculty appointments many of the medical staff has been credentialed to provide clinical education and training to future doctors and other clinical professionals.

**Services Expansion**

Our team is also working to implement new services to keep pace with healthcare and technological advances nationwide. Some recent additions to the services we provide include: pacemaker insertions, surgical ablations (an alternative to total hysterectomies) and circumcisions.

## BUDGET OVERVIEW

**Projected 2015**

Based on the first 8 months of activity for FY 2015, the hospital is on track for a $7 Million total net loss. Actual 2014 total net loss was $1.1 Million. Without specific initiatives to enhance revenue and curtail spending, this severe deficit will continue and exacerbate the financial situation.

**Fiscal Year 2016 Operating Budget**

SRMC's Fiscal Year 2016 Operating Budget and Financial Trends are based on the following assumptions (**See Appendix 1**):

**Revenue**

One of the most important aspects of revenue projections in healthcare is net revenue. Net revenue, monies we expect to collect, is gross revenue less contractual adjustments. Contractual adjustments are revenue deductions based on negotiated rates with:

- Insurance companies
- Reimbursement rates preset by the government, such as Medicare and Medicaid.

Based on historic data, it was determined that SRMC's contractual deductions represent approximately 49% of gross patient revenue. This level of deduction is attributable to:

- 40% discount given to uninsured patients (Self Pay)
- Volume of Medicare encounters
- Extremely low reimbursement rate for patients covered by the Medicaid program
- Uncompensated Care is care provided to patient, which SRMC is paid nothing. Total Uncompensated Care for 2014 was $28,753,566 and $16,830,522 for the first 8 months of 2015.

The hospital is engaged in numerous revenue cycle and cost reduction initiatives that will ultimately improve its financial position. However, due to the transition from ICD 9 to ICD10 in October 2015, we are anticipating some loss in revenue due to coding issues. Therefore, we are only projecting a $4 million increase in Net Revenue. The opportunities to improve the facility fiscally that are currently being pursed include:

- Panacea - Charge Master Review and Strategic Pricing
- Medical Data Systems (MDS) – Self Pay Accounts and Balance After Insurance
- Clifton Larson Allen – Medicare Cost Report refilling, MKS ER Evaluation and possible Hospital Based SNF
- Omnicell – Materials Management and Inventory Controls
- Lean and Six Sigma Methodologies

**Operating Expenses**

FY 2016 Budget projected expenses are $107 million, reflecting a decrease of 2% from Fiscal Year 2015 projected expenses as of May FY 2015. The general categories (or line items) within the operating expenses include the following:

**Salaries and Wages**

Salaries and Wages represent 34.5% of the total operating expenses. There are currently 600 positions. We are currently evaluating our staffing and have set policies to reduce overtime and have effectuated a more robust workforce committee. Therefore, our budget includes a 7% decrease in Salary and Wages.

The current positions and annualized cost as of May 2015 for Salaries and Wages are broken down into the following categories:

- General Fund - 262 positions at cost of $16.6 million.
- Health Revolving Fund - 26 positions at a cost of $2.4 million.
- Hospital Contract Staffing - 256 positions at a cost of $12.7 million.
- Agency Staffing – 56 agency positions at a cost of $8 million.

**Fringe Benefits**

Fringe benefits account for 8.6% of our operating expenses. The FY 2016 Budget reflects a slight increase in Fringe Benefits. Current benefits are broken down into the following categories:

- General Fund - $5.7 million.
- Health Revolving Fund - $900 thousand
- Hospital Contract Staffing - $2.3 million.

**Professional Fees**

Professional services represent 12.2% of our total operating expenses at a proposed cost of $13,084,832. These expenses are related to contracted services for:

- Legal
- Licensed Temporary Physicians (Locum Tenens)
- Revenue Cycle
- Collections
- Information Technology
- Biomedical
- Housekeeping
- Security
- Cafeteria and Dietary Services

**Materials and Supplies**

Materials and supplies represent 16.6% of our total operating expenses at a proposed cost of $17,882,785 million. This increase is consistent with the healthcare industry, and other industries experiencing inflationary cost adjustment. Food, drugs and other medical and non-medical supply costs continue to experience increases.

**Other Services and Charges**

Other services and charges represent 4.9% of the total operating expenses. Budgeted at $5.2 million, this expense category includes:

- Communication
- Freight
- Travel
- Transportation
- Repair & Maintenance
- Training

Repair and Maintenance costs continue to escalate at SRMC due to the aging facility and equipment. The cost for repairs and maintenance for FYE 2014 was $2.5 million and as of May 2015 was $1.4 million. Fiscal challenges continue to make it difficult for reinvestment in our infrastructure.

**Utilities**

Utility costs of $5.1 million are 4.8% of our total operating expenses. This reflects a decrease from the projected 2015 expense due to a decrease in utility rates.

**Depreciation**

This cost illustrates the usage and aging of equipment and infrastructure. The $3.5 million represents the minimum capital necessary to maintain and/or improve the infrastructure. It represents 3.3% of operating expenses.

**Bad Debt**

Our bad debt amount represents 14.94% of total operating expenses and is budgeted at $16 million. This represents a decrease over 2014 actual results and reflects initiatives currently underway related to charge capture process, automated contract management software, improving collectability and recovery efforts and reducing claims write off.

This is consistent with industry initiatives. SRMC will continue to request more frontline payments and enter into contractual arrangement with patients prior to service being rendered.

**Capital Funds**

As of September 2014, net capital assets from the balance sheet were valued at $37 million or 56% of total assets balance sheet . As of May 2015, net capital assets were valued at $34 million or 45% of total assets. The change highlights that capital resources continue to be utilized to the end of their useful lives (fully depreciated) without the means of replacement. The cost of maintaining an aging physical infrastructure and repairing outmoded equipment is increasing and will continue to increase while the capital base erodes until SRMC is able to access resources to fund its capital needs.

SRMC has expended a total of $5.1 million in actual capital dollars over the past five fiscal years. In contrast, the estimated capital budgets for the same periods have gradually increased with significant amounts of capital being rolled over. The projected capital request for FY 2015 is $2 million and consists of prior years' unfunded capital needs. (**See Appendix 2** – **Deferred Maintenance List – Fiscal Year 2015**).

**Financial Trend**

The consolidated budgeted statement of operations for SRMC shows an overall net loss of $11.95 million deficit in FY 2013, $1.1 million deficit in FY 2014, and a $7 million deficit projected for FY 2015.

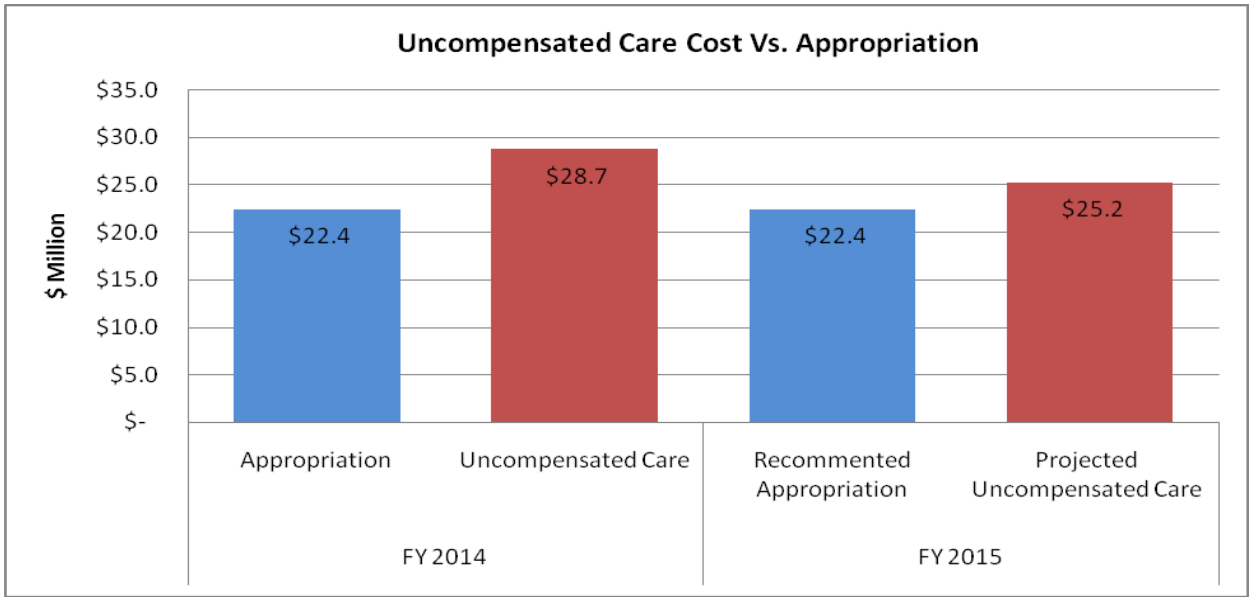
## FINANCIAL CHALLENGES

**Uncompensated Care**

Uncompensated care is an overall measure of hospital care provided for which no payment was received from the patient or insurer. It is the sum of a hospital's "bad debt" and the charity care it provides. Charity care is care for which hospitals never expected to be reimbursed.

A hospital incurs bad debt when it cannot obtain reimbursement for care provided; this happens when patients are unable to pay their bills, but do not apply for charity care, or are unwilling to pay their bills. Uncompensated care excludes other unfunded costs of care, such as underpayment from Medicaid and Medicare.

The actual cost of uncompensated care for FY 2014 was **$28,753,566.25**. At the same time, SRMC's appropriation of $**22,472,518** from the central government, which is intended to cover the Hospital's uncompensated costs, left SRMC with a deficit of **$6,281,048.** For current fiscal year (FY 2015), we have already incurred **$16,830,522.59** in uncompensated care cost. If this trend continues, we would accumulate **$25,245,783** in uncompensated care cost by October 2015, which will also leave a deficit of approximately $**2,773,265.** See the chart below.

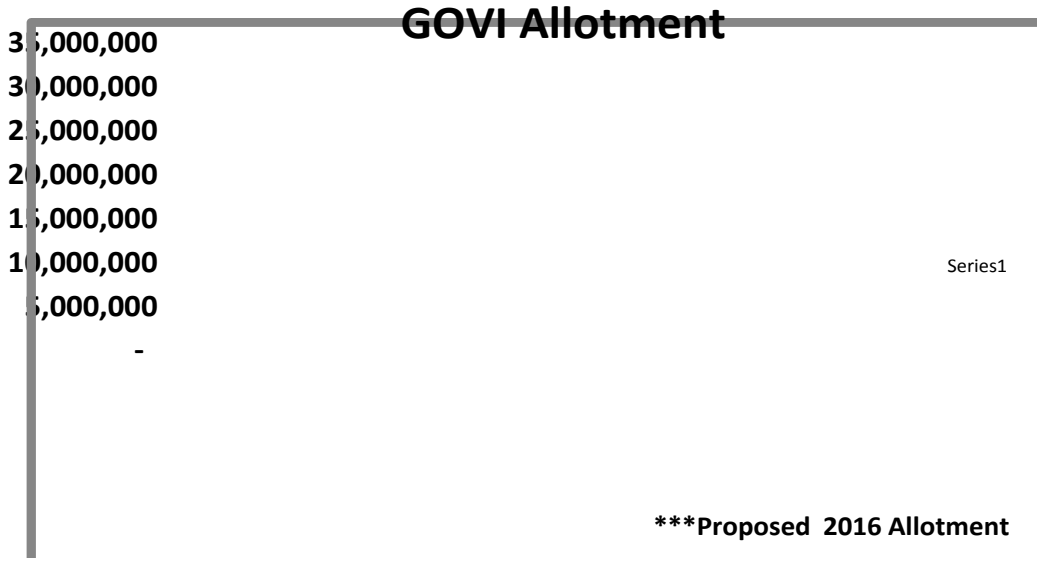



If SRMC was fully reimbursed for uncompensated care costs, we would have had a total net gain of $5.1 million in FY 2014, versus the actual Net Loss of $1 million. Further, the projected FY 2015 net loss would be $4.2 million versus the current projected loss of $7 million, as represented below:

| | FY 2014 | FY 2015 Projected |
|---|---|---|
| Total Net Loss | $ (1,113,398.00) | $ (7,039,527.00) |
| Uncompensated Care Deficit | $ 6,281,048.00 | $ 2,773,265.00 |
| Total Net Gain/(Loss) without Uncompensated Care | $ 5,167,650.00 | $ (4,266,262.00) |

**Decreased Appropriations from Central Government**

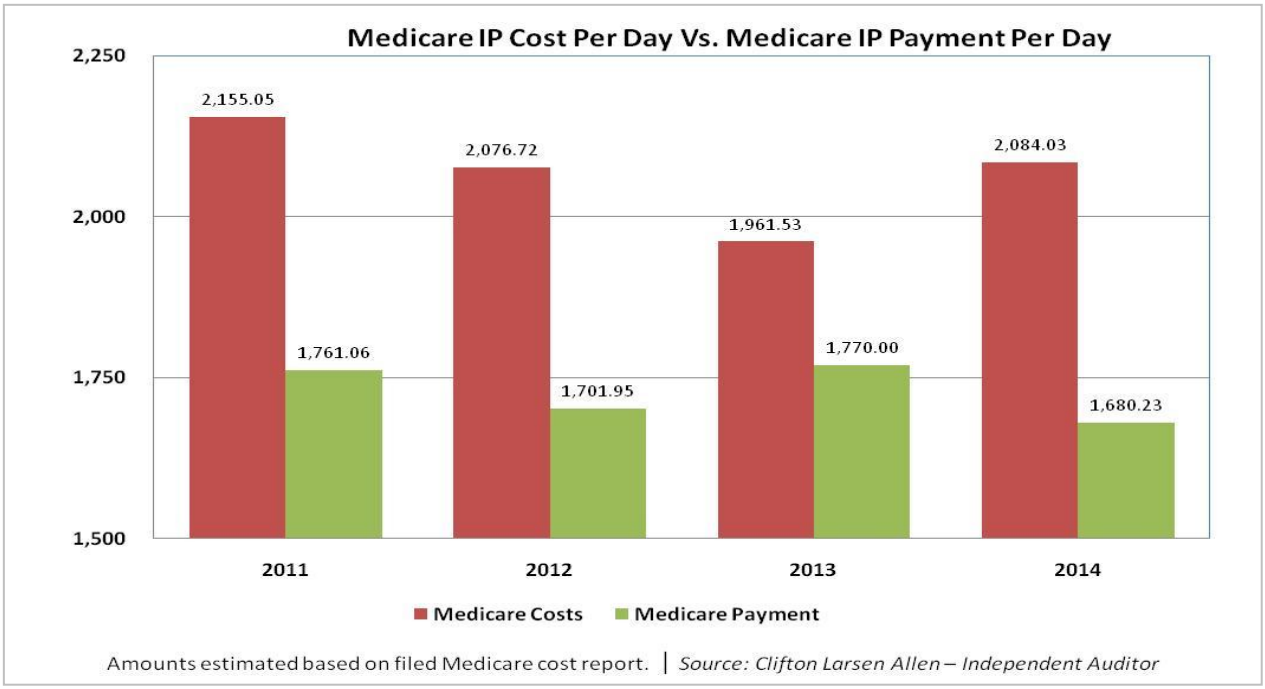
Our financial situation is compounded by the decrease in appropriations to SRMC over the past 9 years. As shown in the chart (GOVI Allotment) below, allocations have decreased from $31,527,175 in Fiscal Year 2008, to $22,472,518 for Fiscal Year 2016. This represents a reduction of $9,054,657 or 29% decrease in appropriations to SRMC.



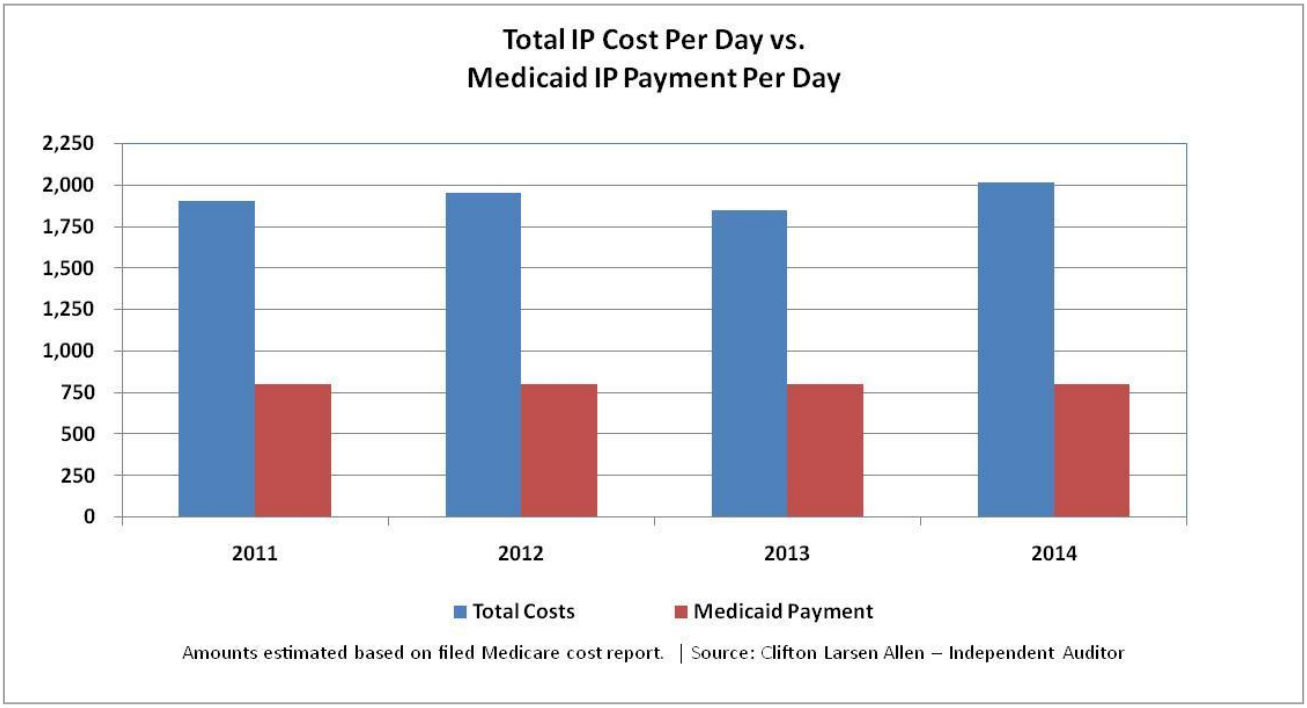

The appropriation SRMC receives from the central government, only fund salaries and benefits for those employees with NOPA's originally reflected in the General Fund. SRMC appropriation of $22,472,518 for FY 2014, covered approximately forty-nine (49%) of our overall payroll costs. During the same period, SRMC's operating expenses totaled $111,778,812; revenues totaled $71,744,699, resulting in a deficit of $40,361,431 before appropriations.

SRMC is solely responsible for all its operating expenses and our only funding sources, besides our monthly allotment from the government, are generated from gross revenues collected from the following sources: Medicare (43%), Medicaid (13%), Self-Pay (17%), Cigna (14%), and Commercial & Other (13%).

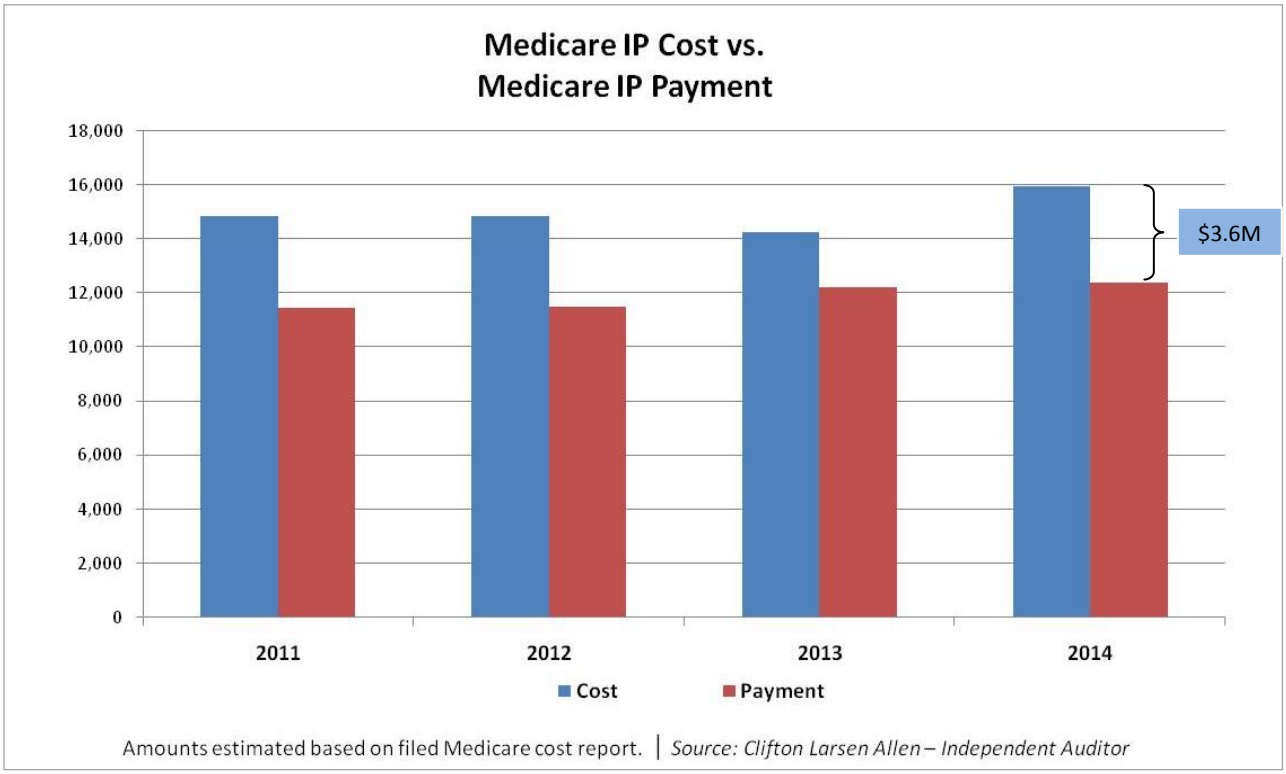
Due to its TEFRA status (The Tax Equity and Fiscal Responsibility Act of 1982), SRMC is paid significantly less than its cost to provide services to Medicare and Medicaid patients. The chart below shows SRMC's inpatient (IP) cost per day versus Medicare payment per day for SRMC's services.




Similarly, Medicaid underpays SRMC for services provided. The chart below shows the total in-patient cost incurred per day versus the reimbursement the hospital receives for providing services to Medicaid patients.



A review of the total Medicare Inpatient (IP) cost versus the total Medicare payment shows a $3.6 million funding shortfall for FY 2014, as illustrated in the chart below.




Significant reductions to SRMC's appropriations and underpayments from Medicare and Medicaid have negatively impact our goal of achieving a balanced operating budget. These financial challenges and underpayments from Medicare and Medicaid inhibit the hospitals ability to pay critical vendors in a timely manner. Vendors are consistently placing the hospital on credit hold or threatening to do so.

**Accounts Payable**

The proposed FY'16 general fund of $22,472,518 and makes it difficult to render the full scope of services expected by the community and visitors, and impacts our ability to keep current with our vendors. As shown in the table below, SRMC currently has an outstanding Accounts Payable and Accrued Liability of $25,735,207.

| Accounts Payable | | |
|---|---|---|
| IRS-FY 15 Not included in A/P liability | $ | 707,014.00 |
| IRS- Payment plan not included in A/P liability | $ | 32,221.52 |
| IRB-Payment plan not included in A/P liability | $ | 528,000.00 |
| IRB-FY 15 | $ | 448,797.86 |
| WAPA | $ | 10,776,185.31 |
| Rent/Travel/Transportation | $ | 148,867.69 |
| Employee Benefits/Other Garnishments | $ | 685,618.04 |
| Other Patient & Insurance Refunds | $ | 1,238,115.90 |
| Food Services | $ | 2,005,622.92 |
| Staffing Agencies | $ | 1,671,828.28 |
| Supplies & Pharmaceuticals | $ | 2,275,815.04 |
| Professional Services | $ | 894,923.18 |
| Utilities | $ | 33,341.70 |
| Maintenance | $ | 478,349.67 |
| Other | $ | 175,397.73 |
| Total | $ | 22,100,098.84 |
| Open PO's Accrued-processing | $ | 3,635,108.76 |
| Grand Total | $ | 25,735,207.60 |

SRMC does not intentionally withhold payment to vendors; difficult decisions are made based on our cash on hand. Our executive team meets regularly to assess which vendor payments can be delay or paid to ensure we have critical medical supplies available to provide safe, quality healthcare.

**WAPA**

SRMC's average monthly invoice from WAPA is $372,000. Our current outstanding account payable to WAPA totals $10,776,185. We are grateful for the FY'14 and FY'15 special appropriation of $3 million that helped to reduce our aging account payables to WAPA. Recently, we have been able to reach a settlement agreement with OMB to reduce our remaining outstanding debt to WAPA, by taking a $190,000 reduction to our July 2015 allotment and agreeing to pay $150,000 per month for future allotments. This reduces our cash flow.

**IRB & IRS**

In July 2014, SRMC was given notice that the hospital owes the Virgin Islands Bureau of Internal Revenue (IRB) an excess of $721,000 in penalties and interest due to improper filing of quarterly income tax withholding returns, (941 VI). The amounts due are related to returns for fiscal years 2004 through 2012. SRMC was able to secure a payment agreement with the IRB that required a monthly payment of $12,000 and has continued to make the required payment during 2015. As of June 2014, the remaining balance due is $528,000.

Similarly, in March 2014, SRMC was given notice that it owes the Internal Revenue Service (IRS) nearly $570,000 related to unpaid tax withholdings from quarters ending December 31, 2010, June 30,2011, September 30, 2011, March 31, 2012 and June 30, 2013. To resolve this matter, SRMC worked with the IRS to make monthly installments. We are now making payments of $15,000 per month with a current balance of $32,221.

We have attempted to remain current with both the IRB and IRS during FY 2015; however, we owe approximately $1.1 million to the IRB and IRS related to the quarter ending June 2015, which is due July 15th.

We would also like this body to take into consideration that several local agencies also owe SRMC for services and utilities. For example, the Department of Human Services owes $134,745.5, the Department of Justice owes $669,608.28 and the Health Department owes $212,385.68. Furthermore, SRMC's WAPA bill includes over 18,776 square-feet of space occupied by the Department of Health, based on the high LEAC and KW/Hr rates. This equates to **$305,438.00** of SRMC's annual WAPA bill for which the Department of Health does not contribute. If the hospital had been able to collect those outstanding funds and if the Department of Health to paid their portion of the WAPA bill, it would offset SRMC's debt and greatly improve our ability to pay more vendors including WAPA. It is extremely difficult to manage an institution like SRMC with a $380,000 per month electrical and water bill and supplies to perform surgeries and provide excellent patient centered care.

**Capital Expenditure**

Our capital spending is inadequate to keep pace with improvements and upgrades in technology. Each year, SRMC has had to defer capital improvements or use operating funds to meet “emergency” capital needs. Unlike other similarly positioned hospitals, SRMC does not have the ability to “set aside” funds for depreciation or regular capital improvements. The continued inability to fund capital items will continue to affect operating costs as maintenance costs increase.

It is also not strategic to address capital needs at the time when they become critical or urgent, because one will have to pay premium rates for the short turnaround period required. The average age of the physical plant at SRMC is 17 years, whereas, the age should be closer to 10 years with proper funding of depreciation.

There were $3.5 million from the financing proceeds, earmarked for Capital Construction Projects, and the $4.0 million, earmarked for Capital improvements in FY 2014. We are very grateful and these funds will prove extremely helpful. However, the total capital needs of SRMC currently exceeds totals $9.3 million, which is $2 million more than the financing proceeds. (See Appendix 2 – Deferred Maintenance List – FY 2015).

**Personnel Expense**

Our efforts to recruit qualified healthcare executives are also met with challenges, as we were not always able to offer competitive salaries and other incentives to secure the best talent for the organization. This challenge is coupled with the high cost of living here in the Virgin Islands that further complicate our recruitment and retention efforts.

Reductions in the work force because of budgetary cuts must be replaced at a higher cost by agency staffing in order to maintain our current service delivery.

SRMC’s overall permanent to agency (contract) staffing ratio is 75/25. The permanent to agency staffing ratio for nursing as of July 2014 is 73/27. During the same period of the previous fiscal year, this ratio was 60/40. This shows a considerable improvement in our efforts to secure more permanent staff and reduce our reliance on agency (contract) staffing. However, this is a work in progress.

SRMC supports legislation that will allow the hospitals' increased autonomy and flexibility to recruit physicians for various specialties. Our ability to recruit and negotiate competitive salaries for specialists and hospitalists will reduce our reliance on locum tenens (temporary physicians) or contract staff. In fiscal year 2014, the costs to provide locum tenens coverage for the Emergency Room was $1.3 million. SRMC will spend an approximately $2.9 million in professional service fees and other related cost to provide locum tenens coverage during this fiscal year.

**Ambulatory Surgical and Outpatient Centers**

Other challenges facing SRMC include adverse competition from freestanding ambulatory surgery centers. Significant numbers of surgeries have migrated away from the hospital's operating rooms to external ambulatory surgical facilities.

We are seeing a trend of insured cases for surgical procedures being done in our OR decrease, while the numbers have increased at physician private offices and ambulatory surgical centers. The continuation of this trend could prove damaging to the hospital. SRMC is seeing more patients who have informed us that while they were under 65-years there were seen by physicians in their private offices, however when they turned 65 and became Medicare eligible, they were referred to the back hospital.

If SRMC is to become self sustaining, it must be reimbursed for services or be given levels of appropriation that will facilitate achieving this goal. Factors, such as, low outdated reimbursement rates, nonpayment for boarders and homeless patients, and the high rate of uninsured patients, have negatively impacted cash flow. These factors also contribute to our inability to procure adequate supplies and equipment, to replace critical vacant positions, undertake needed capital projects, and market our programs and services.

The FY'16 recommended appropriation of $22,472,518 is insufficient to meet the mandate of operating an acute care hospital, a cancer center, and an urgent care clinic on a twenty-four hour basis.

## CHARLOTTE KIMELMAN CANCER INSTITUTE (CKCI)

The Charlotte Kimelman Cancer Institute is the only comprehensive cancer institute in the Territory. The institute offers medical oncology (adult and pediatric), hematology and radiation oncology services and have a full complement of other clinical and professional staff. CKCI also offers prosthesis fittings at the Lynne Cohen Boutique, educational seminars, cancer support groups, and provides a host of free or low cost cancer screenings. CKCI is equipped with advanced technology in cancer detection and treatment.

Patient visits for CKCI in Fiscal Year 2014 were 9,857; most of these patients were covered by either Medicare or Medicaid, which accounts for 47% and 12% respectively. The high cost of chemotherapy medication has negatively impacted the operating margin of CKCI. The operating loss for the Institute in FY 2014 was approximately $2.3 million. As of May 2015, the operating loss for CKCI is $1 million.

## MYRAH KEATING SMITH COMMUNITY HEALTH CENTER (MKS)

Myrah Keating Smith Community Center on St. John is the only health care facility offering 24-hour urgent care on the island of St. John. MKS offers a variety of primary health care services to include adult, pediatric and high-risk prenatal care and specialty services in endocrinology, ophthalmology, and orthopedics. MKS also provides nutrition and diabetes consultations and support.

MKS provides access to services for approximately 10,073 patients (both residents and visitors) per year. The center's payer mix indicates that a large percentage of individuals who were treated during Fiscal Years 2014 did not have insurance or had limited coverage by Medicaid. Based on our documentation, approximately 32% of all patient visits were made by the uninsured, 11% were covered by Medicaid and 17% were covered by Medicare. For Fiscal Year 2014, MKS operating loss was $2,170,628. As of May 31, 2015, MKS has already experienced a loss in excess of $1.5 million.

Given its financial status, MKS cannot continue to provide services at its current levels without additional financial support and resources. If funding is not provided, MKS must take measures to curtail services in order to reduce its operating expenses.

## OPPORTUNITIES

### Revenue Cycle

The hospital is engaged in numerous revenue cycle and cost reduction initiatives that are slated to improve our financial position. However, we are anticipating some loss in revenue due to coding issues with the transition from ICD9 to ICD10 in October 2015. Therefore, we are only projecting a $4 million increase in Net Revenue. The opportunities to improve the facility fiscally that are currently being pursed include:

- Panacea - Charge Master Review and Strategic Pricing
- Medical Data Systems (MDS) – Self Pay Accounts and Balance After Insurance
- Clifton Larson Allen – Medicare Cost Report refilling, MKS ER Evaluation and possible Hospital Based Skilled Nursing Facility (SNF)
- Omnicell – Materials Management and Inventory Controls
- Lean and Six Sigma Methodologies

### Six Sigma Projects

In fiscal year 2013, International Capital and Management Company's (ICMC) Black Belt level Six Sigma Consultants provided complimentary training to SRMC staff on the use of Six Sigma and Lean methodologies to optimize operational efficiencies, reduce cost and eliminate waste in the organization. Focus areas in progress include:

- Inventory Management
- Operating Room
- Emergency Room
- Revenue Cycle

Through Par level management of in-house supplies, the Materials Management department has saved $45,900 in ocean freight charges and expired supplies, and nearly $15,000 in printer toner cost by switching to another vendor. FY 2015 YTD savings for Materials Management is $38,065.29.

### Operating Room

Projects are well on its way to address opportunities identified in the Operating Room. Inventory management, availability of equipment and supplies and appropriate case scheduling are a few initial tactics that will be the driving force to reduce the amount of

delays occurring in the Operating Room. A reduction in delays will positively impact the overall utilization as well as patient and provider satisfaction and staffing over time.
There are other initiatives in place to reduce the current inventory on hand through usage reports and patient census algorithms. We will continuously work at adjusting our internal par levels to reduce the likelihood of over ordering supplies.

The Emergency Department piloted the "fast track" model for quarters 1 & 2 of FY2015. This process showed a decrease in patient wait times from 5 hours and 46 minutes to 3 hours and 17 minutes. This process has been proven to work throughout the United States. With sustainable staffing levels the "fast track" model will be successful.
There is a house-wide momentum to capture charges for supplies used to provide patient care services.

**Energy Saving Initiatives**

Through a partnership with the Virgin Islands Energy Office, Florida Power and Light (FPL) Energy Services, Inc., NEXTera, and Bostonia Partners, a number of Energy Conversation Measures (ECM) were planned for SRMC and were slated for implementation in the spring of 2015. However, these plans are currently on-hold and are now before the Public Finance Authority (PFA) for further consideration by the present Administration. Based on the analysis prepared by FPL, the conceptual projects at SRMC, CKCI and MKS will result in annual cost savings of approximately $2,584,621; yielding a 5.5 year payback. The Energy Conversation Measures (ECM) included:

- Power Quality
- Advanced Metering
- Energy Efficiency Lighting Upgrade
- Air Handling Unit Replacement
- Domestic Plumbing Fixture Retrofit
- Chiller replacement SRMC-(3) Chillers, w/Heat Recovery
- Connecting Chilled Water Piping from CKCI to MQIN Chiller Plant
- Kitchen Equipment
- Laundry Equipment
- Building Transformers
- Solar Power

The offering was based on a private placement of note with a single investor and not a Depository Trust Company (DTC), with resale restricted to a Qualified Institutional Buyer (QIB). The projections were presented to senior government officials who requested FPL to present an alternative funding method.

**Information Technology**

U.S. Department of the Interior, Office of Insular affairs, approved grant monies totaling $538,000, for Information Technology Capital Improvement Projects. These projects entail:

- Network Servers and Software Updates
- Computer Equipment Upgrades
- MKS IT Infrastructure Stabilization
- Wireless Network
- Microsoft Software Upgrades

We thank to all the individuals that assisted SRMC in this effort, to include Department of Interior and the Office of Management and Budget (OMB).

**Donations**

We also take this opportunity thank and acknowledge our community partners, sponsors and volunteers for their support throughout this past fiscal year. Some of our major contributors include:

- Lions Club of St. Thomas
- Mr. Bert Richard Cohen (husband of Lynne Cohen)
- Nigel O. Hodge Foundation

**SRMC Foundation**

We are in the process restarting the foundation for our organization. The new foundation received its certificate of good standing in June 2015. We have already selected a chairperson for the foundation have selected others to chair subcommittees which are (1) Special Gifts (2) Annual Gifts and (3) Business Gifts.

**Community Benefit**

Despite our financial challenges, SRMC remain committed to providing community benefit. SRMC has provided free services, screenings, and have participated in numerous community events, to include:

- Collaborated with the American Cancer Society to Provide Mammograms.
- Participated in the Relay for Life 2015; winning prizes for team spirit and best tent.
- Provided Free Cervical Cancer Screenings at CKCI
- Cancer Survivor Day at CKCI to honor Cancer Survivors (105 Cancer Survivors Participated).
- Hosts Monthly Educational lectures and seminars on health topics impacting our community. Topics range from Strokes, Trauma Care, Breast Cancer, Reconstructive Surgery, Electroconvulsive Care and more.

## SUMMARY

Based on our projected Fiscal Year 2016 Operating Budget & Financial Trends (Appendix 1), SRMC would need $8.7 million in additional funding to breakeven. Furthermore, SRMC's capital needs are approximately $2 million (Appendix 2), which are currently not funded. Based on the aforementioned, SRMC is requesting further consideration to increase the organization's budgetary allotments to offset uncompensated costs, our operating loss and to fund depreciation.

## CONCLUSION

I would like to take this opportunity to recognize the St. Thomas / St. John District Governing Board, the Territorial Board, Executive Leadership Team, the Medical Staff and employees of SRMC for their hard work and on-going commitment to our organization. Most importantly, I would like to thank the patients and their families who have entrusted their healthcare to SRMC. Be assured that we will continue to improve our services to not only meet but exceed your expectations.

Thank you, Mr. Chairman and members of the Committee on Finance for the opportunity to present our FY2016 Budget; we appreciate the support and assistance the Legislature and Administration have provided to us over this past year.

My team and I are prepared to take your questions.

**Appendix 1 – Fiscal Year 2016 Operating Budget & Financial Trends**

| Operating Revenue | | | | | |
|---|---|---|---|---|---|
| | 2014 Actual | 2015 Budget | May 2015 YTD | Projected FY 2015** | 2016 Budget |
| Gross Patient Revenue | 136,158,160 | 144,133,888 | 94,042,000 | 141,063,000 | 145,294,890 |
| Contractual Adjustment | (66,239,470) | (68,091,341) | (48,295,527) | (72,443,291) | (72,647,445) |
| Net Patient Revenue | 69,918,690 | 76,042,547 | 45,746,473 | 68,619,710 | 72,647,445 |
| Other Revenue | 1,826,010 | 2,016,185 | 1,856,166 | 2,784,249 | 2,895,619 |
| Total Revenue | 71,744,700 | 78,058,732 | 47,602,639 | 71,403,959 | 75,543,064 |
| **Operating Expenses** | | | | | |
| Salaries and Wages | 37,091,975 | 36,131,821 | 26,541,762 | 39,812,643 | 37,000,000 |
| Fringe Benefits | 8,731,369 | 9,256,676 | 5,965,766 | 8,948,649 | 9,200,000 |
| Professional Fees | 11,232,910 | 12,430,984 | 8,387,713 | 12,581,570 | 13,084,832 |
| Materials and Supplies | 16,182,766 | 17,661,354 | 11,424,862 | 17,137,293 | 17,822,785 |
| Other Services and Charges | 6,011,526 | 5,040,391 | 3,375,551 | 5,063,327 | 5,265,860 |
| Utilities | 5,664,299 | 5,862,616 | 4,108,017 | 6,162,026 | 5,160,000 |
| Depreciation | 3,613,133 | 4,200,000 | 2,283,757 | 3,425,636 | 3,562,661 |
| Bad Debt Expenses | 23,250,834 | 16,000,000 | 10,841,941 | 16,262,912 | 16,000,000 |
| Total Expenses | 111,778,812 | 106,583,842 | 72,929,369 | 109,394,054 | 107,096,137 |
| Income Loss from Operations | (40,034,112) | (28,525,110) | (25,326,730) | (37,990,095) | (31,553,074) |
| GOVI Appropriations | 38,746,535 | 31,653,898 | 23,129,829 | 30,620,369 | 22,471,620 |
| Other Non-Operating Revenue/Contributions | 174,179 | 4,027,028 | 220,133 | 330,200 | 340,000 |
| Total Net Loss | (1,113,398) | 7,155,816 | (1,976,768) | (7,039,527) | (8,741,454) |

Appendix 2

# Capital Improvement List - Updated 06/08/2015

| CIP (Capital Improvement Project) | | FUNDING SOURCE | |
|---|---|---|---|
| Projects | UNBUDGETED | Act. No. 7631 $3.5M- Capital Construction Improvements | Act. 7453 BOND $4.0M General Improvements, Deferred Maintenance and Equipment |
| Stirrups YellowFin Allen | $ 6,475.08 | | |
| Mammography: Beam Quality and Dose measurement Devices | $ 8,000.00 | | |
| CT Ion Chamber and Dose Phantoms | $ 10,500.00 | | |
| Karl Storz Latin America | $ 15,730.00 | | |
| General Surgery Laparoscopic Set | $ 24,810.30 | | |
| GYN Laparoscopic Set | $ 26,834.20 | | |
| Surgical Table | $ 60,958.00 | | |
| Vehicle-replacement. Quantity-3 | $ 90,000.00 | | |
| 20- Patient Care beds at $ 6,200.00 each (Medical) | $ 124,000.00 | | |
| Patient Monitoring System | $ 261,068.00 | | |
| OR Towers and Monitor Systems-upgrade current system | $ 275,000.00 | | |
| Replace sink and countertop and other failing equipment - Nursery | | $ 4,600.00 | |
| Renovation- Upper Doctors Parking Lot | | $ 4,985.00 | |
| Renovations to Nursery- patient and parent areas privacy | | $ 6,506.80 | |
| Replacement of 2 Elevator Floors | | $ 8,940.00 | |
| Minor cosmetics to unit - Obstetrics | | $ 10,000.00 | |
| Emergency Exit Pathway | | 10,000 | |
| Replacement of Steam Coil 120V and modifications- Laundry | | $ 10,914.46 | |
| Repairs to trash compactor ramp - pistons - (Housekeeping) | | $ 20,000.00 | |
| Remodel darkroom and bathroom - Radiology | | $ 20,000.00 | |
| Jaredian Design Group-Drawings for Labor & Delivery Renovations | | $ 24,000.00 | |
| Chill water fan coil unit in Laundry (facilities) | | $ 29,000.00 | |
| Drawings for Parking Lot, Doctors Parking and Liquid Oxygen Expansion | | $ 30,600.00 | |
| Renovation and Replacement of Rope Grippers for 4 Elevators | | $ 34,608.00 | |
| Renovations to 2nd Floor Male/Female bathrooms | | $ 46,003.23 | |
| Central Sterile Decontamination Area Upgrade | | $ 50,000.00 | |
| Sprinkler Head Upgrade | | 50,000 | |

| Projects | UNBUDGETED | Act. No. 7631 $3.5M- Capital Construction Improvements | Act. 7453 BOND $4.0M General Improvements, Deferred Maintenance and Equipment |
|---|---|---|---|
| Electrical Upgrade to add outlets | | 50,000 | |
| AHU Insulation Replacement (facilities) | | $ 60,000.00 | |
| Reconstruction of Lower Doctors Parking Drainage Area | | $ 60,000.00 | |
| Renovation to Medical Waste Buidling and Dock | | $ 70,100.00 | |
| ED Flooring (ED) | | $ 105,436.00 | |
| ED Ceiling (ED) | | $ 110,673.00 | |
| Call Bell System Replacement/Nurse Call System (Nursing) | | $ 130,000.00 | |
| Cistern Repairs-$131,500 (facilities) | | $ 131,500.00 | |
| Repaving Rear Paking Lot Area | | $ 132,500.00 | |
| AHU#4 Fan Coil Replacement (facilities) | | $ 135,000.00 | |
| Renovations to Behavorial Health Unit | | $ 149,295.00 | |
| Sterilizers qty-2 | | $ 150,000.00 | $ 275,000.00 |
| Liquid Oxygen Pan and oxygen Bank Upgrade Area | | $ 150,000.00 | |
| One Chiller Upgrade for Roy Lester Schneider Hospital Project | | $ 179,900.00 | |
| Renovations to Business Office to accommodate move of Finance Dept from 4th Flr Medical Area. | | $ 250,000.00 | |
| Remodeling of clean room-to comply with USP797standards -Pharmacy | | $ 250,000.00 | |
| Urology Room Redesign-to create a multi purpose OR Suite. | | $ 350,000.00 | |
| IT Physical Infrastructure Upgrades | | $ 500,000.00 | |
| Nursing Station Chairs (5) (ER) | | | $ 1,845.00 |
| Visitor Chairs (4) - Nursing (ICU) | | | $ 2,000.00 |
| Big Boy Wheelchair (ICU) | | | $ 2,100.00 |
| Welch Allyn Series 300 Vital Signs Monitor w/stand - Nursing (ER) | | | $ 2,385.00 |
| Welch Allyn Series 300 Vital Signs Monitor w/stand (Hemodialysis) | | | $ 2,385.00 |
| Hydraulic Stand In Table (OT/PT) | | | $ 2,402.86 |
| Bedside Tables (4) - Nursing (ICU) | | | $ 2,432.00 |
| Bedside Cabinets (3) (ER) | | | $ 2,700.00 |
| Replacement of equipment - Infection Control | | | $ 4,000.00 |
| Stretchers (4) - Nursing ER | | | $ 4,600.00 |
| Recliners for Patients (2) - Nursing (ICU) | | | $ 4,800.00 |

| Projects | UNBUDGETED | Act. No. 7631 $3.5M- Capital Construction Improvements | Act. 7453 BOND $4.0M General Improvements, Deferred Maintenance and Equipment |
|---|---|---|---|
| ITRAC Project Capital (IT) | | | $ 5,000.00 |
| Bedside tables + patient chairs - Obstetrics | | | $ 5,000.00 |
| Replace 5 chairs, Medical Unit | | | $ 5,400.00 |
| 2 new stretchers + bedside tables - ER | | | $ 5,500.00 |
| Freezers | | | $ 6,178.00 |
| 2 BP Monitors @ 3500/e - Pediatrics | | | $ 7,000.00 |
| E-ICU project (IT) | | | $ 7,350.00 |
| Blood Bank Refrigerator (Lab) | | | $ 8,000.00 |
| Ultrasound Imaging Table equipment-$8,000 (Ultrasound) | | | $ 8,000.00 |
| Cell Washer Upgrade (Lab) | | | $ 9,000.00 |
| Ortho Gel System, improve TAT and match industry standards - Blood Bank | | | $ 9,000.00 |
| MicroSoft licenses | | | $ 10,000.00 |
| Microbiology Hood Replacement Project (Lab) | | | $ 10,000.00 |
| Platelet Storage System w/Agitator-$11,000 (Lab) | | | $ 11,000.00 |
| ICD-10 Roll out (MediTech dependent) (IT) | | | $ 13,860.00 |
| Printer replacements | | | $ 15,750.00 |
| Sharepoint environment | | | $ 15,750.00 |
| Microscopes Upgrade lab | | | $ 18,000.00 |
| Chairs , approximately 15 bedside tables and over the bed tables ordered. - Surgical Unit | | | $ 20,000.00 |
| 3 beds @ $5450/each, bedside furniture, curtains - Pediatrics | | | $ 20,000.00 |
| Hospital beds w/ mattresses (4 @ $7,000/e) (MKS) | | | $ 28,000.00 |
| Change and request control | | | $ 29,400.00 |
| Recovery Room bed/stretchers upgrades | | | $ 30,510.00 |
| UPS 30kVA 208VAC (Lab) | | | $ 32,657.00 |
| Meanful Use (IT) | | | $ 36,750.00 |
| Portable X-ray Unit replacement for a 20 year old unit-$38,000 (Radial) | | | $ 38,000.00 |
| PC Replacements | | | $ 38,115.00 |
| MedRad Power Injector | | | $ 40,000.00 |

| Projects | UNBUDGETED | Act. No. 7631 $3.5M- Capital Construction Improvements | Act. 7453 BOND $4.0M General Improvements, Deferred Maintenance and Equipment |
|---|---|---|---|
| OEC Mini View 6800 C-arm 2005 (Rad) | | | $ 41,500.00 |
| 5000-00-00 Artic Sun 5000 Temperature Mgmt System - Nursing (ICU) | | | $ 41,995.00 |
| Network Monitoring | | | $ 42,000.00 |
| ICU Beds (2) | | | $ 44,556.00 |
| IS Data Center Upgrade | | | $ 50,000.00 |
| Testing environment | | | $ 52,500.00 |
| Hyperthermia Blanket Machine for ICU (ICU) | | | $ 54,858.00 |
| Server replacements | | | $ 73,920.00 |
| System integration and interfaces | | | $ 75,000.00 |
| General Radiographic Digital X-Ray Room-$75,000 (Rad) | | | $ 75,000.00 |
| Purchase of Microscan, present instrument at end-of-life - Microbiology (Lab) | | | $ 78,400.00 |
| Security Monitoring | | | $ 84,000.00 |
| Refurb GE AMX portable (2 @ $42,000/e) | | | $ 84,000.00 |
| Establish thin client environment | | | $ 107,625.00 |
| 20- Patient Care beds at $ 6,200.00 each (Nursing) | | | $ 124,000.00 |
| Accutech Security Systems - Nursing | | | $ 125,000.00 |
| Kronos Time Keeping | | | $ 134,800.00 |
| Digital Mammogram system (radiology) | | | $ 135,000.00 |
| GE Logiq E9 Ultrasound system | | | $ 135,000.00 |
| Computerized Digital Radiography Viewing and storage system-$175,000 (Rad) | | | $ 175,000.00 |
| Patient monitors - ER | | | $ 183,580.00 |
| Interface Cardiac Monitors for ER (18 monitors & 2 central station monitors) (ER) | | | $ 250,000.00 |
| SRMC PACS Environment @ $446250 | | | $ 446,250.00 |
| IT Infrastructure | | | $ 500,000.00 |
| Omnicell Upgrade | | | $ 598,000.00 |
| MediTech upgrade (IT) | | | $ 650,000.00 |
| **Total Capital Budget** | $ 903,375.58 | $ 3,324,561.49 | $ 5,151,853.86 |

| Projects | UNBUDGETED | Act. No. 7631 $3.5M- Capital Construction Improvements | Act. 7453 BOND $4.0M General Improvements, Deferred Maintenance and Equipment |
|---|---|---|---|
| Amount Funded | $ - | $ 3,500,000.00 | $ 4,000,000.00 |
| Balance of Funds Available | (903,376) | 175,439 | (1,151,854) |
| Unfunded Capital Projects- unbudgeted and balance Act 745 | $(2,055,229.44) | | |
| | | | |
| | | | |