



STATE OF ARKANSAS
**Department of Finance
and Administration**

OFFICE OF THE SECRETARY
1509 West Seventh Street, Suite 401
Post Office Box 3278
Little Rock, Arkansas 72203-3278
Phone: (501) 682-2242
Fax: (501) 682-1029
www.arkansas.gov/dfa

September 15, 2022

Senator Jonathan Dismang, Co-Chair
Representative Michelle Gray, Co-Chair
Performance Evaluation & Expenditure Review Committee
Arkansas Legislative Council
State Capitol Building
Little Rock, AR 72201


RE: FY 23 American Rescue Plan Act Request

Dear Co-Chairs:

Pursuant to Section 37 (02) of Act 199 of 2022, I am forwarding the attached American Rescue Plan Act request(s) that have received my approval as Chief Fiscal Officer of the State.

- Ouachita County Medical Center \$6,077,852.65
- North Arkansas Regional Medical Center \$10,000,000.00

Sincerely,


Larry W. Walther
Cabinet Secretary

cc: Senator Terry Rice, Co-Chair, Arkansas Legislative Council
Representative Jeff Wardlaw, Co-Chair, Arkansas Legislative Council



BRINGING **BETTER** TO YOU

September 15, 2022

Department of Human Services
Attn: Arkansas American Rescue Plan Act (ARPA) Steering Committee
5800 West Tenth St. Suite 400
Little Rock, AR 72204

RE: ARPA Funding Request

Dear Committee,

Healthcare teams across Arkansas demonstrated unyielding commitment throughout the pandemic, and we are now faced with insurmountable obstacles to continue providing care. North Arkansas Regional Medical Center (NARMC) has seen a dramatic change in financial performance post pandemic. NARMC's fiscal year runs from April to March. The fiscal year 2020 ended with a contribution margin of 1.7% as the pandemic was beginning. The first four months of fiscal year 2020, prior to the pandemic, yielded a contribution margin of 1.95%. However, the same period of time, post pandemic, yielded a contribution margin of -14%.

North Arkansas Regional Medical Center received Medicare Accelerated Payments in April 2020 at the beginning of the pandemic. NARMC has repaid 91.2% of the advanced payments and is prepared to remit the remaining balance upon request from Medicare, which is expected in September. The Medicare Accelerated Payments did not offset the increased cost of providing care.

Comparing the four months ending 7/31/2022 to the same four month period prior to the pandemic, ending 7/31/2019, North Arkansas Regional Medical Center experienced a decrease in volume and net revenue with an increase in operating expenses. The net revenue for April-July 2019 decreased by 8.75% for the same period in 2022. This decrease represents primarily a reduction in adjusted admissions of 8.1% as the facility due to ongoing volume losses related to the COVID-19 pandemic. NARMC has experienced a 17.6% increase in average hourly rate across the workforce. As a result, gross salaries increased by 8.8%. The overall increase would have been significantly higher, but the organization took steps to offset the rising cost by reducing the total FTEs (full time equivalents) by 8.9% during the same period of time. This accelerated attrition fueled by the pandemic resulted in a reduction of 64 non-patient care full time equivalents. NARMC experienced a 470% increase in contract labor expense over this period of time to ensure direct patient care workers were available. This contract labor increase is attributable to two factors, challenges locating nursing personnel during the pandemic and increased contract labor rates due to the nursing shortage. During this same period of time, supply cost increased by 9.1% per adjusted admission.

The Medicare IPPS (Inpatient Prospective Payment System) market basket (inflation) update proposes a nationally averaged increase of 4.1%. The calculated impact for NARMC will be 3.1% for NARMC's inpatient volume. The 3.1% increase adjusts for decreased high cost outlier payments, disproportionate share payments, and new technology payments. However, even with the 3.1% market basket adjustment, the facility will experience an overall decrease of 6.5% in Medicare reimbursement. This overall proposed decrease is largely due the approaching expiration of the Medicare Low Volume Adjustment Rule (LVA). Absent legislative



BRINGING **BETTER** TO YOU

action, the discharge criteria will revert back to pre-pandemic levels, and most recipients will no longer qualify. Prior to the pandemic, only hospitals with fewer than 200 total discharges qualified for the LVA. Congress updated/modified the expanded criteria during the pandemic— most recently to a cutoff of 3,800 total discharges per year. The legislation to support extending these programs is critical to the survival of rural hospitals across our state. The legislative proposals are H.R. 1887 and S.B. 4009. Hospitals like North Arkansas Regional Medical Center strongly support these proposals.

In early 2022, NARMC embarked on an aggressive financial management plan aimed at stabilizing EBITDA and reaching financial sustainability. The goals of NARMC's plan include creating a correct-sized organization, building efficiencies, reducing waste, creating strategic growth initiatives, and improving revenue cycle without negatively affecting safety or quality. This program is currently comprised of over forty individual initiatives and is divided into five major domains: expense reduction, 340B impact, revenue capture, new revenue generation, and service line reduction. In addition, NARMC continues to develop and refine a strategic plan for catastrophic expense reductions. This catastrophic expense reduction plan will be staged to have the least effect necessary to ensure solvency of the organization, but at the expense of significant changes in access to healthcare and a further significant reduction in workforce.

Expense Reduction. Reduction of contract labor expense will be achieved by both reduction of contract staff FTEs and reduction in contract labor expense per hour. In 2022, NARMC invested in an energy-efficient chiller for the facility as part of anticipated facility expense to replace nonfunctional equipment. The chiller investment is expected to generate energy savings of 680,000 kWhr of electricity per year. Additional initiatives include reduction in supply expenses, purchased service expenses such as maintenance contracts, elimination of the Nuclear Medicine on-call service, and reduction in length of stay. In particular, length of stay reduction has been complicated by the pandemic through reduced availability at accepting facilities such as LTAC (long-term acute care), LTC (long-term care), and behavioral health facilities. Additionally, NARMC is exploring reductions in workforce.

340B Impact. NARMC is pursuing additional 340B Drug Pricing Program (340B) savings. The 340B program created in 1992 requires drug manufacturers to provide outpatient drugs to covered entities at reduced prices. The intent of the program is to allow covered entities to "stretch scarce federal resources as far as possible, reaching more eligible patients and providing more comprehensive services." These 340B impact initiatives include referral capture, contract pharmacy network enhancement, and mitigation of unlawful pharmaceutical manufacturer contract pharmacy reductions. 340B remains one of the most impactful federal programs for Arkansas's rural and indigent populations, and NARMC remains a strong advocate for protecting the 340B program.

Revenue Capture. NARMC has identified revenue cycle improvements and opportunities to improve revenue capture. Approximately 50% of the revenue capture initiatives are identified as a one-time financial gain, and 50% is ongoing net revenue improvement. These projects include auditing, identifying, and rebilling qualifying claims for high cost medications and procedures. The initiatives for on-going revenue-cycle improvement center on coding efficiency, provider-based billing improvements, and a planned increase to the charge master.

New Revenue Generation. NARMC has identified opportunity related to generating new revenue. These limited projects include new services. NARMC has also identified net revenue enhancements associated with Medicare Advantage payors. Because of the reliance on third-party government payors such as Medicaid,



BRINGING **BETTER** TO YOU

Medicare, and VA, healthcare entities like NARMC cannot simply increase prices to generate proportional net revenue. Reimbursement is set by the third party payors without the healthcare entity having any reasonable ability to negotiate. This model in other business sectors could be considered anti-competitive- a model whereby payment is essentially fixed by the payer with no reasonably effective means by which an entity can negotiate. For example, Medicare sets annual rate increases that are not negotiable. As stated above, changes in Medicare for NARMC in 2022 will create a net decrease in Medicare reimbursement of 6.5%, including expiration of the LVA protections.

Service Line Reduction. NARMC has made the difficult decision to close the NARMC Eureka Springs Family Practice Clinic in Eureka Springs, AR in November 2022. Because of the effect service line reduction has on access to care in rural communities, all other service lines identified for potential reduction or elimination are part of the catastrophic expense reduction discussion below.

Catastrophic Expense Reduction. Catastrophic expense reduction is an evolving discussion and analysis of expense reductions which have a potentially significant negative impact on access to healthcare or a stable workforce in the NARMC service area. The service area includes the following five Arkansas counties: Boone, Newton, Searcy, Carroll, and Marion. Many hospitals across the nation are reducing services, ceasing service lines and eliminating positions to sustain minimal healthcare services.

If hospitals across the state close, we will see a significant economic impact to the entire state of Arkansas. For example, NARMC is the second largest employer in Boone County, and provides over \$50 million in salaries on an annual basis. The facility's service area contains over 95,000 people surrounding Boone County. Many of these individuals need immediate care and do not have resources to travel 70 or more miles to access care. The facility has been extremely fortunate to serve the community with an emergency room that was not on divert at any point during the pandemic. We have partnered with local and state agencies to provide necessary COVID-19 treatment modalities and prevention strategies, while incurring the labor, supply, and travel costs associated with providing these services.

NARMC was awarded a \$500,000 community development block grant through Boone County. This funding was used to access necessary supplies to care for COVID-19 patients and equipment necessary to protect our staff from exposure to illness. NARMC operated an incident command center for nearly 2 years, and will be submitting funding requests for reimbursement from the Federal Emergency Management Agency (FEMA) with all necessary supporting documentation. This request will be submitted in the month of October. North Arkansas Regional Medical Center has taken active steps in educating our staff and community about the impact of inflation within the healthcare setting through various media sources and public meetings such as city council and chamber of commerce events.

North Arkansas Regional Medical Center is actively engaged in negotiations with commercial payors to increase reimbursement to facilities to cover the rising cost in care. However, as patients have increases in premium cost, commercial insurance companies are not passing those increases on to facilities and physicians for services rendered. The American Hospital Association provided a white paper on the impact of commercial payors to the healthcare delivery system. This document provides detailed information about the regulatory constraints that also impact and delay healthcare delivery. These delays further impact the ability of the organization to receive accurate and timely payment for services.

**North Arkansas Regional Medical Center
July YTD Income Statement**

	YTD				
	Actual Jul-22		Budget Percent		PY Actual Jul-21
Inpatient Revenue	\$ 17,810,282	-14.4%	\$ 20,813,038	-11.5%	\$ 20,124,428
Outpatient Revenue	77,964,751	-4.9%	82,021,238	2.9%	75,786,390
Gross Revenue	95,775,033	-6.9%	102,834,276	-0.1%	95,910,819
Deductions From Gross Revenues	66,042,386	-2.2%	67,505,347	7.9%	62,564,933
Provision for Uncollectible Accounts	1,391,837	-23.3%	1,813,981	4.3%	1,738,379
Charity Allowance	220,548	-38.2%	357,018	-9.2%	393,327
Total Deductions from Revenue	67,654,771	-2.9%	69,676,345	4.6%	64,696,639
Net Patient Revenues	28,120,262	-15.2%	33,157,930	-9.9%	31,214,179
Other Revenue including COVID-19 Funding	565,768	25.1%	452,400	-86.0%	4,055,377
Total Net Revenues	28,686,030	-14.7%	33,610,330	-18.7%	35,269,556
Salaries & Wages	14,898,591	-6.3%	15,903,506	6.5%	13,983,513
Employee Benefits	2,137,035	-15.9%	2,541,380	-9.8%	2,370,024
Contract Labor	3,091,588	54.2%	2,004,879	4.4%	2,960,264
Professional Fees	1,817,676	2.7%	1,769,153	7.0%	1,698,618
Supplies	5,855,852	-3.1%	6,044,186	-14.7%	6,863,455
Utilities	532,115	0.7%	528,230	0.7%	528,230
Leases/Rentals	500,839	-4.2%	522,784	-0.3%	502,137
Insurance	378,889	10.1%	343,977	8.6%	349,019
Purchased Services	1,603,146	-10.9%	1,799,851	-10.2%	1,784,737
Other Expenses	1,892,757	6.4%	1,779,234	6.4%	1,779,737
Total Operating Expenses	32,708,487	-1.6%	33,237,181	-0.3%	32,819,735
Operating Income Before Depr., Amortization & Int	(4,022,457)		373,150		2,449,821
Contribution Margin (Operating)	-14.0%		1.1%		6.9%
Depreciation & Amortization	1,018,483		1,001,666		974,854
Interest Expense	182,592		270,048		283,795
Operating Income	(5,223,532)		(898,564)		1,191,173
Investment Return-Realized	224,256		6,668		566,385
Excess of Revenues Over Expenses	(4,999,276)		(891,896)		1,757,558
Investment Return-Unrealized Gains/Losses	(1,761,262)		333,340		1,180,535
Transfer (To) From Affiliates	(14,117)		-		(15,410)
Contributions	137		80,613		76,452
Increase in Unrestricted Net Assets	\$ (6,774,518)		\$ (477,943)		\$ 2,999,134
Total Margin	-23.6%		-1.4%		8.5%

FUNDING REQUEST AND ATTESTATION FROM AR ARPA STEERING COMMITTEE

This form should only be completed by the Chief Executive Officer (CEO) or Chief Financial Officer (CFO) of the applicant hospital. Language in [brackets] is for informational purposes and should be replaced with appropriate details. The CEO/CFO completing the form should hand-write their initials in the blank fields adjacent to bracketed fields that indicate "CEO/CFO initials." The CEO/CFO completing the form should also include a hand-written signature in the appropriate field at the end of the form.

I, Sammie Cribbs, on behalf of North Arkansas Regional Medical Center (hereinafter "Hospital") hereby request \$10,000,000 in funding from the Arkansas American Rescue Plan Act Steering Committee.

I, Sammie Cribbs, on behalf of the Hospital, hereby attest to the following:

SECTION 1. ELIGIBILITY

The Hospital meets the following conditions:

- The Hospital is licensed by the Arkansas Department of Health as a general hospital, with license number AR4480.
- The Hospital is currently enrolled with the Arkansas Medicaid program, with AR Medicaid ID: #131319105
- The Hospital has insufficient assets to cover liabilities, as indicated by the Hospital's quick-ratio of less than one (1), and as shown by the most recent month-end financial statements attached hereto. The hospital's quick ratio is -.45.
- The Hospital has less than 90 days' cash on hand or is operating on a margin of less than -10% in Quarter 1 or Quarter 2 of Calendar Year 2022, as shown by the most recent month-end financial statements attached.

SC

[SC]

SECTION 2. REQUIREMENTS AND RESTRICTIONS

The Hospital acknowledges and attests to the following:

- The requested amount above does not exceed three (3) months' payroll expenses and contract labor and expense documentation is attached hereto showing the Hospital's payroll expenses for the previous three (3) months preceding the date of this application.
- These funds are necessary to cover expenses incurred between July 1, 2022 – June 30, 2023, to mitigate and prevent the spread of COVID-19, and to address extraordinary costs related to the Public Health Emergency due to COVID-19, including but not limited to closing critical gaps in infrastructure, capacity, sustainability, and strategic planning.
- The Hospital has attached its plan for achieving sustainability. Within 90 days of approval of this application, the Hospital will provide the Arkansas Department of Human Services (DHS) with progress made on the sustainability plan. Hospital's failure to timely submit progress statements or to make adequate progress will be grounds for DHS to recover the total amount of payment.
- All requested funding will be expended during the period of July 1, 2022—December 31, 2022, and only for expenses incurred during that period.
- For expenses incurred prior to receipt of funds from DHS, the Hospital will submit documentation of the expenses within 60 days of receipt of funds.

FUNDING REQUEST AND ATTESTATION FROM AR ARPA STEERING COMMITTEE

- For expenses incurred after the date of receipt of funds from DHS, the Hospital will submit documentation of the expenses within 90 days after the expenses are incurred.
- The Hospital acknowledges that these funds may be used for the following reasons:
 - To recruit or retain healthcare staff;
 - For healthcare staff payroll and labor expenses generally; and
 - Funds may also be used for Hospital's drug and supply costs.
- None of these funds will be used to pay any increase in management fees to administrative personnel.
- None of these funds will be used to duplicate or supplant funding from any other federal or state program.
- To the extent that expenses are subsequently reimbursed under any other federal or state program, the Hospital will notify DHS immediately of such fact and will fully comply with DHS in reconciling and recovering such funds.
- Payments or other reimbursement for direct patient care is not included as funding from a federal or state program.
- The Hospital will retain records sufficient to support each expenditure related to this funding, for so long as may be deemed necessary, but in no case less than seven (7) years.
- The Hospital will make records of its expenses available to DHS and/or any other lawful authority, upon request.
- DHS will audit Hospital to ensure these funds are used only for appropriate purposes and, if it is determined that Hospital used funds inappropriately or failed to expend the entirety of the awarded funds, DHS may recoup questioned costs, up to the full amount requested above.
- In the event any amount is denied as the result of an audit by state or federal authorities, the Hospital will repay DHS such denied amount, together with any associated penalty or cost imposed as a result of the audit.

80 [SC]

SECTION 3. COMPLIANCE STATEMENTS

The Hospital attests that the following statements are true and correct:

- The Hospital complies with all legal requirements related to COVID-19 vaccination, including without limitation Arkansas state laws, EEOC requirements, and Medicare Conditions of Participation.
- The Hospital allows religious, antibody, and testing exceptions in lieu of getting the COVID-19 vaccine, as required by law.

80 [SC]

Signed and Agreed:

Printed Name	Sammie Cribbs
Email Address	Sammie.Cribbs@narmc.com
Telephone No.	870-414-5130

FUNDING REQUEST AND ATTESTATION FROM AR ARPA STEERING COMMITTEE

Signature	<i>Samuel B. Gibbs APRW</i>
Date	Sept, 15, 2022