



Rutland Regional Medical Center

An Affiliate of Rutland Regional Health Services

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January 31, 2019

Ms. Pat Jones, Director of Health System Finances
Green Mountain Care Board
89 Main Street
Montpelier, VT 05620-3101

Dear Pat,

The following narrative highlights the operating performance of Rutland Regional Medical Center for the fiscal year ended September 30, 2018. As we discussed, RRMCC's audited financial statements will not be available until late February. We will send an electronic copy of RRMCC's fiscal year 2018 audit report as soon as it becomes available.

Utilization

Fiscal year 2018 actual Gross Patient Service Revenue (GPSR) was over budget by \$17.6 million or 3.3%.

Overall, inpatient routine revenue was over budget by \$333,000. Total admissions were over budget by 906, or 13.8% and patient days were over budget 2.2% or 698 days. RRMCC's actual average length of stay of 4.53 approximately ½ day under budgeted expectations. Increase in volume is driven by medical cases as demonstrated by an increase in our medical case mix volume.

Inpatient ancillary services revenue was over budget by \$5.5 million. This variance was driven by increased diagnostic imaging service revenue having a positive variance of \$2.6 million. Pharmaceutical revenue was over budget \$1.4 million. Additionally, we experienced increased utilization in our Emergency Department resulting in a \$1.5 million positive variance.

Outpatient ancillary was over budget \$11.7 million. Pharmaceutical revenue was over by \$5.7 million, driven in large part to the increased utilization of oncology drugs. Laboratory Services experienced increased volume during Fiscal 2018. In total, Laboratory services were over budget \$1.5 million. Radiation Therapy saw a significant increase in utilization resulting in revenue being over budget \$2.2 million. Surgical Services volume was also over budgeted expectation resulting in a positive revenue variance of \$1.1 million.

Net Patient Revenue

For the year, our Net Patient Service Revenue (NPSR) was over budget \$3.2 million equivalent to 1.3%. Unfortunately the overrun in NPSR was not sufficient enough to cover increased expenses related to staffing, recruitment, and medical supplies.

The table below illustrates the changes in NPSR. Increased utilization is described above as part of GPSR. Relative to reimbursement and payer mix, Medicare and Medicaid reimbursement assumptions were consistent with actual reimbursement policies. The decline in reimbursement of \$979,000 is primarily the result of changes in payment policies imposed by Blue Cross. Free care and bad debt increased, as a result of patients with high deductible plans and/or an inability to pay premiums which resulted in a loss of coverage. Our bad debt as a % of gross revenue increased to 1.6% of gross revenue against a budget of 1%.

NPR	Amount	% over/under
FY 18 Approved Budget	\$ 250,963,000	
Increased (decreased) Utilization (net)	\$ 6,195,000	
Reimbursement/Payer Mix	\$ (979,000)	
Free Care/Bad Debt Utilization	\$ (1,868,000)	
Medicaid DPS	\$ (238,000)	
Other	\$ 162,000	
FY 18 Actual Results	\$ 254,235,000	1.3%

Other Operating Revenue

Other Operating Revenue was over budget by \$2.9 million or 23.5%. This overage relates to our 340b pharmacy program which was over budget by \$2.7 million for the year. This increase in revenue was planned as a part of expansion of Retail Pharmacies and is included in our 2019 Budget.

Operating Expenses

Total operating expenses were over budget by \$10.6 million or 4.1 %. The largest variances are:

- Physician Salaries are over budget by \$1.1 million – this was driven by expenses related to the on boarding of 7 new physicians and increased physician service volume.
- Physician Locums are over budget by \$1.5 million – this was driven by an increased need for Locums coverage in our Psychiatric units. In addition, we

- experienced increased costs associated with our anesthesiology provider.
- Salaries (Non-MD) are over budget by \$642,000 – this was driven by an increase in Hiring Agreements relating to a Registered Nurse Hiring Program that was implemented. The intent of this program is to reduce the need for travelers and plan for anticipated retirements.
 - Other Operating Expenses are over budget by \$7.9 million –
 - Positive Variances:
 - Defined Benefit Pension Expense – under budget \$1.3M due to plan funded status and changes in the discount rate
 - Depreciation under budget \$828,000 due to a delay in the completion in capital projects
 - Negative Variances:
 - Contract Staff FTEs were over budget 36 resulting in additional expense of \$4.9 million.
 - Increased volume in Pharmacy resulted in increased expenses of \$2.6 million.
 - Increase expenses associated with our IT System Operation resulted a budget overrun of \$1.7 million. Due to a change in accounting regulation this was budgeted as capital and now needs to be expensed. There was also an increase in the contract with IT Works that we did not know at the time we budgeted.

Expenses	Amount	% over/under
FY 18 Approved Budget	\$ 257,549,360	
Salaries	(\$641,741)	(.75%)
Fringe Benefits	\$785,858	2.7%
Physician Contracts	(\$2,672,994)	(8.47%)
Contract Staffing	(\$4,781,498)	(63%)
Misc. Supplies	(\$262,257)	(.4%)
Drugs	(\$2,601,881)	(18%)
IT Related	(\$1,712,052)	(12%)
Depreciation	\$827,650	6.5%
Interest	\$379,622	22.48%
Health Care Provider Tax	\$108,586	.73%
FY 18 Actual Results	\$ 268,120,067	4.1%

Non-Operating Revenue

Non-operating revenue was over budget by \$1.8 million. This overage is driven by unrealized gains in our investment portfolio.

Operating Margin

RRMC's Operating Margin for Fiscal 2018 was .5% against a budget of 2.3%. This is the second year that we have not met budgeted operating margins. The concern is that net revenue targets do not support inflation of medical supplies and recruitment and retention of health care clinicians and support staff.

Investment in Health Care Activities

RRMCs Healthcare Reform for FY 2018 included the following:

HEALTH CARE REFORM	BUDGET AMOUNT	FUNDS USED
Blueprint Shortfall	\$ 151,300.00	\$ -
Care Management System Director	\$ 80,300.00	\$ 84,641.68
Come Alive Outside	\$ 20,000.00	\$ 31,994.14
Community Grant Program Admin	\$ 92,000.00	\$ 92,000.00
ED Social Work	\$ 82,800.00	\$ 83,276.35
IT Support - Community Care Mgmt	\$ 75,000.00	\$ 75,000.00
Medication REACH Program	\$ 289,000.00	\$ 258,738.63
PSIU Peer Specialist	\$ 37,000.00	\$ 16,580.73
SBIRT Year 3 Shortfall	\$ 47,300.00	\$ 81,206.81
Transitions of Care - Care Mgr	\$ 100,000.00	\$ 83,200.00
TOTAL FY18	\$ 823,400.00	\$ 806,638.33

As referenced in YTD email we are also providing responses to the following questions.

- Information about the hospital's financial controls, including oversight by the hospital's Board of Directors.

RRMC has a mature planning process which includes a 3-year Strategic Plan, Strategic Financial Plan and 1-year Action Plan. These plans are reviewed and approved by our Board of Directors at the start of our annual budget process. Our Executive Finance Committee (a sub-committee of the RRMC Board) meets monthly to review our financials. The full RRMC Board of Directors reviews hospital financial performance on a bi-monthly basis. Capital projects greater than \$300,000 or that require a CoN are approved by the Executive Finance Committee prior to committing funds.

- Information about whether the hospital's filings and associated payments are current (e.g., payroll taxes, unemployment insurance)

Yes, we are current.

- Information on the hospital's credit rating.

The hospital does not have a credit rating. When we benchmark, we align ourselves with Standard and Poor's A rated performance measures for stand alone hospitals. We also monitor our 3 debt covenant requirements on a monthly basis to ensure compliance and monitor additional debt capacity.

Please feel free to call me if you have any questions or concerns regarding information relative to our 2018 performance and the binding budget process.

Sincerely,



Judi Fox
Chief Financial Officer