NORTHWESTERN MEDICAL CENTER
NARRATIVE ON ACTUAL FISCAL YEAR 2019 RESULTS

NMC's net patient revenue for FY2019 fell short of budget by $6,245,000 or 5.5%. Gross charges were on budget for the year, but reimbursement rates were well below budget as a result of high bad debt write-offs and unfavorable ACO risk results. Operating expenses were over budget due to high health insurance claims and high utilization of temporary staffing and purchased consulting services.

NPR	Amount	% Over/Under
FY19 Approved Budget	112,773,980	
EMR Implementation	-2,600,000	-2.31%
ACO Risk Reserve	-1,800,000	-1.60%
Bad Debt/Free Care	-1,130,374	-1.00%
Utilization/Other	-714,142	-0.63%
FY19 Actual Results	106,529,464	-5.54%

Operating Expenses	Amount	% Over/Under
FY19 Approved Budget	116,243,347	
Benefits (Total)	1,595,366	1.37%
Temporary Staffing/Consulting	1,400,000	1.20%
Traveler (Temp Clinical Non MD)	540,025	0.46%
MD Contracts	360,000	0.31%
Depreciation and Amortization	-403,483	-0.35%
All Other	-5,990	-0.01%
FY19 Actual Results	119,729,265	3.00%

Net Operating Revenue

- On May 1, we transitioned all outpatient physician practices onto the same electronic medical record and billing system that is used within the acute hospital setting. Having the physician practices on the same medical record system provides numerous benefits to patients, providers and hospital staff. Patients can access their medical information through a single health portal, physicians are able to view the comprehensive medical records of their patients within one system during a visit, and data is fully integrated for billing, coding, reporting and analysis. While we have been able to achieve substantially all of these benefits, the system workflows have proven to be challenging for our physicians. When a new system is implemented, short-term interruptions are expected, however, in this case, many challenges have been long lasting. Many improvements have been made since May 1 and we now feel that all opportunities for major improvements have been captured. Unfortunately, even after these improvements, volumes in a few practices, most notably Primary Care and Pediatrics, have not returned to pre go-live levels. Lower volumes in those areas are expected to continue. The system implementation had a significant impact on net revenue in FY2019, accounting for a reduction of approximately $2.6 million. Continued access issues in Primary Care have trickled through the ancillary departments, resulting in lower radiology, laboratory and surgical volumes. Based on our analysis of gross charges through January, we project that total gross charges will come in under budget in FY2020 by 1-2% which results in a reduction in net patient revenue of between $1.5 and $2.5 million.

- Risk based performance within the all payer model administered by OneCare Vermont has been unfavorable in calendar year 2019. As a result, our risk reserve was increased by $1.8 million in FY2019. Based on financial information available as of February 1, 2020 with claim dates through August 2019, this risk reserve is appropriate. A new risk reserve will need to be established in FY2020. Changes to the risk reserve are recorded as an increase in contractual allowances which is a reduction in net patient revenue. We do not yet know the exact amount, although we expect that it will be similar to the $2.9 million total risk for the 2019 plan year. This has not yet been recorded in FY2020 so it is not a factor in the current year Net Patient Revenue variance.
- Bad debts ran over budget in FY2019. A mapping error was identified within the patient billing system that was inappropriately classifying certain write-offs as Bad Debt when they should have been classified as a contractual allowance. This error has been corrected and we expect a favorable variance on this line in FY2020 as a result.

Operating Expenses

- Employee benefits exceeded budget by $1.6 million, driven almost entirely by employee health claims. We utilize a self-insured model which exposes the organization to variability in this expense line with the potential for large variances, both favorable and unfavorable, in any single year. We have reinsurance in place so that when an individual has claims that exceed a particular level, those expenses beyond that level are paid by an insurance carrier and not NMC. The results of the self-insured plan in FY2019 where very unfavorable, and the trend has continued through the first four months of FY2020. We are actively engaged with our benefits consultant to look for ways to minimize risk to NMC and to contain costs going forward.
- Temporary staffing was a major expense for us in FY2019. This included temporary physicians in Primary Care, Orthopedics and our Hospitalist program, an interim CFO and interim nurse managers in two units and a large number of temporary nursing staff (travelers) as we, along with all Vermont hospitals, continue to be challenged with a shortage of applicants for nursing positions.
- As a result of the unfavorable financial results in FY2019, capital expenditures came in below budget which resulted in a favorable variance in depreciation expense.

Other Operating Revenue fell below budget by $1.87 million or 30%

- Grant revenue and reference lab testing provided for non-affiliated community providers fell below budget.

Non-Operating Revenue fell below budget by $1.1 million or 66%

- Non-Operating Revenue consists primarily of items driven by the broader financial markets, including capital gains/losses, income from interest and dividends, and fair market value fluctuations of our bond swap agreement. Due to the unpredictable nature of these items, most are budgeted to be zero. In FY2019, interest rates fell which has an unfavorable impact on our position in a bond swap agreement. The results was a decrease in fair market value of $2.2 million. This unbudgeted loss was partially offset by an unbudgeted increase in the value of our investments.