

SOUTHWESTERN VERMONT MEDICAL CENTER
Financial Summary
Fiscal Year ended September 30, 2019

Southwestern Vermont Medical Center (hereafter “SVMC”)

The gain from operations was \$5,583,044 or a 3.3% operating margin. Below is the comparative summary FY 2019 financial results vs. FY 2019 budget.

Table #1 – Summary Financial Results

	<u>FY 2018 Actual</u>	<u>FY 2019 Budget</u>	<u>FY 2019 Actual</u>
Net patient service revenues	\$155,861,148	\$158,423,884	\$140,176,675
Fixed prospective payments	5,254,618	6,777,492	23,775,895
<i>Total net patient care revenue</i>	<u>161,115,766</u>	<u>165,201,376</u>	<u>163,952,570</u>
Other operating revenues	5,058,829	5,127,206	7,408,575
<i>Total operating revenues</i>	<u>166,174,395</u>	<u>170,328,582</u>	<u>171,361,145</u>
<i>Operating expenses</i>	<u>158,556,275</u>	<u>164,211,565</u>	<u>165,778,101</u>
<i>Operating gain</i>	<u>7,618,120</u>	<u>6,117,017</u>	<u>5,583,044</u>
Non-operating activities-net	<u>2,084,454</u>	<u>649,214</u>	<u>413,313</u>
<i>Excess revenues over expenses</i>	<u>\$9,702,574</u>	<u>\$6,766,231</u>	<u>\$5,996,357</u>
<i>Operating margin</i>	<u>4.6%</u>	<u>3.6%</u>	<u>3.3%</u>

This lower than budget operating gain/margin was driven mostly by the increased operating expenses and lower than plan net patient services revenue offset by higher than plan other operating revenue that will be discussed later in this document. The actual operating margin of 3.3% was in the range of acceptable of operating margins when rating agencies, lending institutions as well as affiliation partners.

SVMC entered the OneCare Medicaid, Medicare and Blue Cross Risk Payment Model effective January 1, 2019. Over the first nine months of the program SVMC has seen an unfavorable difference of OneCare payments over claims activity incurred at SVMC and “foreign” claims incurred with other providers for SVMC’s

attributed lives are also running higher than target. As of September 30, 2019 SVMC had recorded a maximum claim settlement liability of \$209,533 for Medicaid and \$1,177,767 for Medicare which represents nine months of the annual maximum risk liability. At this time based on the information available it appears SVMC will be responsible for the maximum risk liability to OneCare VT for calendar year 2019.

Throughout the year there has been discussion related to the recording of reserves related to the OneCare VT risk programs and the effect on Net Patient Service Revenues (hereafter "NPSR"). Below will provide the impact of the recorded risk reserves on SVMC FY 2019's NPSR.

Table #2 – Effect of OneCare VT reserves on NPSR

SVMC's FY 2019 NPSR		\$163,952,570
<u>Less:</u>		
CY 2018 OneCare Medicaid Settlement received in FY 2019	\$247,566	
FY 2018 OneCare M'caid risk reserve reversed in FY 2019	<u>382,000</u>	629,566
<u>Add:</u>		
CY 2019 OneCare M'care Max. risk reserve	\$1,177,767	
CY 2019 OneCare M'caid Max. risk reserve	<u>209,533</u>	1,387,300
		<u>1,387,300</u>
Adjusted FY 2019 NPSR without OneCare risk reserves		<u>\$164,710,303</u>
Approved FY 2019 NPSR		<u>\$165,201,376</u>

The above table demonstrates the accounting and the effect on SVMC's NPSR of the recorded risk reserves for fiscal year 2019. It is worth noting that it is management's opinion that based upon reports issued by OneCare VT on January 27, 2020 related to SVMC's participation in the calendar year 2019 Medicare and Medicaid programs that the maximum risk reserve will be utilized by SVMC, thus the "reserve" will become reality. It is worth noting in FY 2019 and FY 2020 that no reserves were budgeted in SVMC's request.

Actual results vs. June Submitted FY 2019 Projection

SVMC missed the FY 2019 projection that management submitted with the FY 2020 budget. In performing a look-back patient volumes and revenues were under plan and operating expenses were over plan for the last four months of FY 2019. The last four months saw volumes and revenues less than prior years trends. Typically the last four months of the fiscal year are the strongest financially. Lower volumes and shifting payer mix, to greater governmental payers greater than anticipated and greater expenses than projected contributed to the variance. Expenses were higher than plan mainly due to outside agency and locum utilization. The FY projected operating gain submitted was 3.86% compared to the actual of 3.3%.

The following will discuss FY 2019 actual results and compare them to the approved budget.

Net Patient Service Revenues (hereafter "NPSR")

In FY 2019, NPSR of \$163,952,570 was \$1,248,806 lower than budget or 0.8%. Included in the recorded NPSR is \$1,387,300 of reserves related to the OneCare claims run out for out of network excess utilization. If the FY 2019 reserve was not recorded the Hospital's NPSR variance would have been a positive 0.1%. If the combined CY 2018 and CY 2019 reserves are considered the variance would be a negative .3%. The reserves will be evaluated when the calendar year OneCare program is reconciled in FY 2020.

The NPSR variance to budget was mainly driven by a negative shift in payer mix with and lower inpatient volume. The outpatient services were higher than anticipated volumes in oncology drugs in the Cancer Center, operating room, physical therapy, CT scan, MRI and emergency room. These positive variances were offset by lower than anticipated volume in endoscopy, laboratory and renal services.

The table #3 on the following page provides a summary of the significant revenue variances and the approximate amounts:

Table #3 – Significant NPSR variances from budget by payer

<u>Net Patient Revenue by Payer</u>	<u>FY 2019 Actual</u>	<u>FY 2019 Budget</u>	<u>Variance</u>
Medicare	\$49,454,108	\$62,314,039	
FFP -- Medicare	16,034,390		
<i>Subtotal Medicare</i>	<u>65,488,498</u>	<u>62,314,039</u>	<u>\$3,174,459</u>
Medicaid	12,077,478	19,668,674	
FFP--Medicaid	7,743,411		
<i>Subtotal Medicaid</i>	<u>19,820,889</u>	<u>19,668,674</u>	<u>152,215</u>
Commercial and Self Pay	86,899,007	91,668,663	(4,769,656)
Less: Bad debts / Free care	<u>(8,255,824)</u>	<u>(8,450,000)</u>	194,176
<i>Subtotal Commercial</i>	<u>78,643,183</u>	<u>83,218,663</u>	<u>(4,575,480)</u>
NPSR	<u>\$163,952,570</u>	<u>\$165,201,376</u>	<u>(\$1,248,806)</u>

As the table above shows when factoring in the revenue received from OneCare VT the FY 2019 NPSR had a negative budget variance of over \$1,248,806.

Payer Mix

Total gross patient charges were \$260,816 over budget for FY 2019 or 0.07%. The largest decreases in gross patient charge volume was in Commercial revenue with decreases of approximately 2.2% under budget. Medicare gross patient charges were \$6,412,928 over budget for FY 2019 or 3.4%.

Inpatient Volumes

Table #4 on the following page shows the key inpatient volume indicators compared to budget and prior fiscal year for the twelve months ended September.

Table #4 – Inpatient volumes

	Twelve months ended September 30, 2019			
	Actual FY 2019	Budget FY 2019	Variance	year FY 2018
<u>Patient Days</u>				
Medical/Surgical	8,786	8,429	357	8,464
ICU	1,748	2,420	(672)	1,831
Pediatrics	92	141	(49)	86
Maternity	981	1,140	(159)	1,089
Total Medical/Surgical	11,607	12,130	(523)	11,470
Admissions M/S	3,401	3,498	(97)	3,419

Inpatient days were 523 under plan with lower ancillary services per patient being incurred. In addition, management included \$426,000 of new operating expenses in the ICU for Telemedicine services which was anticipated that the Hospital would be able to retain patients. The FY 2019 budget included an additional 82 admissions in the ICU and 589 patient days and nearly \$1.3 million of revenues. Adult inpatient admission volumes are 97 under budget in FY 2019 or 2.8%.

Inpatient Ancillary Services

The downward trend, related to inpatient volume and patient acuity continued in fiscal year 2019 as ancillary test volumes have declined. Lower than anticipated inpatient surgical cases drove significant variances in operating room, medical surgical supply, respiratory therapy and physical therapy revenue.

Table #5 on the following page shows significant fiscal year 2019 variances in inpatient statistics to budget:

Table #5 – Inpatient ancillary volume significant statistic variances

<u>Twelve months ended September 30, 2019</u>				
<u>Visits/Procedures</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>%Var</u>
Adult Patient Days	11,607	12,130	(523)	-4.31%
Operating Room	527	736	(209)	-28.40%
Respiratory Therapy	16,633	19,356	(2,723)	-14.07%
Physical Therapy	7,477	10,051	(2,574)	-25.61%
Laboratory	58,163	60,516	(2,353)	-3.89%
Radiology	3,793	3,689	104	2.82%
MRI	302	224	78	34.82%
CT Scan	2,035	1,760	275	15.63%

The overall Case Mix, which measures patient acuity was 1.17 which was under the budgeted 1.23. This decrease is one of the drivers of lower ancillary volumes.

Most of the inpatient indicators were negative. Medicare admissions were close to budget and Medicaid and Commercial admissions were under budget by 19.6% and 1.7%, as table #6 below shows.

Table #6 – Admissions by Payer —Fiscal Year 2019

<u>Twelve months ended September 30, 2019</u>				
<u>Payer</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>%Var</u>
Medicare	2,141	2,142	(1)	0.0%
Medicaid	720	895	(175)	-19.6%
Commercial and Self Pay	920	936	(16)	-1.7%
Total Admissions	3,781	3,973	(192)	-4.8%

Total admission includes newborns

Outpatient Ancillary Volume

Outpatient charge volume was over budget by 2.4% in FY 2019. Table #7 on the following page shows departments with significant statistic variances to budget for fiscal year 2019.

Table #7 – Outpatient significant statistic variances—Fiscal Year 2019

<u>Visits/Procedures</u>	<u>September 30, 2019 Year to Date</u>			
	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>%Var</u>
CT Scan	10,393	9,481	912	9.6%
Emergency Room	21,414	20,534	880	4.3%
Operating Room	2,303	2,146	157	7.3%
Physical Therapy	36,156	32,615	3,541	10.9%
Radition Therapy	5,477	5,665	(188)	-3.3%
MRI	3,055	3,228	(173)	-5.4%
Endoscopy	2,858	3,514	(656)	-18.7%
Laboratory	337,458	344,391	(6,933)	-2.0%
Physician Practice visits	144,803	145,313	(510)	-0.4%
Renal	6,500	6,683	(183)	-2.7%

Table #8 below lists departments with the most significant fiscal year charge volume variances.

Table #8 – Outpatient significant gross charge variances – FY 2019

<u>Department</u>	<u>Twelve months ended September 30, 2019</u>			
	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>% Var</u>
Drugs Sold	\$54,775,159	\$50,908,105	\$3,867,054	7.6%
Physician Office	56,005,423	53,479,102	2,526,321	4.7%
CT Scan	24,095,768	22,455,106	1,640,662	7.3%
Emergency Room	23,641,688	22,614,819	1,026,869	4.5%
Operating Room	16,442,962	15,789,437	653,525	4.1%
MRI	8,143,799	7,633,356	510,443	6.7%
Physical Therapy	6,077,685	5,619,561	458,124	8.2%
Raditation Therapy	7,570,866	7,113,649	457,217	6.4%
Endoscopy	6,645,380	8,178,827	(1,533,447)	-18.7%
Laboratory	39,128,389	40,212,692	(1,084,303)	-2.7%
Renal Dialysis	5,707,065	6,649,819	(942,754)	-14.2%
Nuclear Medicine	2,442,565	2,631,112	(188,547)	-7.2%
All other depts	43,636,871	44,142,820	(505,949)	-1.1%
Total Outpatient Gross Charges	\$294,313,620	\$287,428,405	\$6,885,215	2.4%

Outpatient drugs sold showed a significant increase in FY 2019 primary due to the Cancer Center units of service. Patient volumes, new technology and more effective drugs in fighting cancer and improving the quality of life of the patients during treatment are all drivers to the increase in charges and net revenues related to drugs sold.

Outpatient physician office practice gross charge revenue of \$56,005,423 was over budget by \$2,526,321 or 4.7%. The primary driver of the gross charge revenue variance was significant increases in the specialty practices: Cardiology, Dermatology, OB/GYN and Urology in FY 2019 volumes and in the primary care practices volumes were consistent with budget.

The Endoscopy volumes were under budget due to the inability to recruit physicians. Vacancy and the use of locums were the drivers to lower volumes yet the demand is present.

Emergency room volumes were 4.0% above budget in FY 2019 and 3.1% above FY 2018. The emergency room volumes have become more complex over the past years.

Outpatient operating room case volume was 7% above budget and 1.7% above prior fiscal year. SVMC surgical volumes continue to see a shift from inpatient to outpatient.

Other Operating Revenue

Other operating revenue of \$7,408,569 was over budget by \$2,281,363 in FY 2019. The significant positive budget variances to budget are listed below:

- SVMC expanded our 340B contract pharmacy program during the latter part of FY 2019 to include additional retail pharmacies and specialty pharmacies. Revenue recorded for the 340B Contract Pharmacy program in FY 2019 totaled \$4.0 million and exceeded budget by over \$800,000 mainly in the fourth quarter.
- Meaningful use revenue received in the physician practices was approximately \$155,000 higher than budget;
- SVMC received \$647,000 more than planned in grant revenue for the Blueprint, Transitional Care, SBIRT, HRSA, Child Care and Diabetic Education. Additional expenses offset the additional grant revenue received.
- SVMC received \$352,153 in FY 2019 for services provided by staff for the Early Childhood Intervention program. This is recorded on the miscellaneous\contract revenue line of the FY 2019 reporting.

Operating Expenses

Operating expenses of \$165,788,101 were \$1,566,536 over budget for the year or 1.0%. The significant budget variances include:

- Staff salary expenses were over budget by \$129,949 or 0.3% and total year to date FTE's of 780.5 are 16.9 FTE's over budgeted FTE's of 763.6. The variance in absolute dollars would have been greater but management delayed pay increases and managed the compensation per FTE and overtime usage;
- Employee benefit expenses were \$506,399 over budget or 3.5%. In Fiscal Year 2019 for the first time in many years SVHC's self-funded employee health insurance program experienced much higher claims volume than anticipated. Total medical claims of \$8,024,620 were \$1,312,363 over prior year or an increase of 19.6%. This unfavorable claims experience is primarily drive by a number of high dollar claims this year. In addition, total prescription drugs covered under the plan were \$623,137 over prior year or 27.8%

Workers compensation program at SVHC is also a self-funded plan that experienced higher claim experience than prior year driven few high dollar claims. These cost were partially offset by the pension credit this fiscal year was much higher than anticipated.

- Supplies expenses of \$11,366,557 were \$319,521 under budget year to date. The most significant positive year to date supply cost variances are in endoscopy and nursing services with favorable variances of \$151,938 and \$93,154 due to lower than budgeted volumes;
- Pharmacy drug expense of \$14,443,572 for the fiscal year was \$209,507 under budget due to purchasing of drugs under the 340B program that generated greater savings than plan;
- Contract staffing expenses were \$952,495 over budget in FY 2019 primarily in the clinical departments.
- Physician fees and salaries of \$31,336,600 were \$1,382,206 over budget or 4.6% due primarily to hiring costly locum physicians to cover vacancies in the emergency department, hospitalist and orthopedic practice;
- Other operating expenses of \$51,455,618 were \$2,772,601 over budget or 5.7%. Contract labor to fill vacant staff positions accounted for approximately \$1.7 million of this variance.

SVMC Balance Sheet changes in FY 2019

- Cash and cash equivalents decreased by \$1,496,522 from FY 2018 at SVMC. Total days of cash on hand and investments at September 30, 2019 for Southwestern Vermont Health Care were 164.8 days, up from 162.6 days at the September 30, 2018;
- Accounts receivables decreased by \$921,491 from FY 2018. The day's revenues outstanding in accounts receivables were at 35.6 days at the end of September compared to 34.2 as of September 30, 2018.

Additional information can be requested from Stephen D. Majetich, CFO at 802.447.5011 or stephen.majetich@svhealthcare.org and James Roy, Controller at 802.447.5040 or james.roy@svhealthcare.org.

Respectively submitted,

A handwritten signature in blue ink, appearing to read "Stephen D. Majetich". The signature is written in a cursive style and is positioned above a faint, light blue watermark or background graphic.

Stephen D. Majetich, CPA
Chief Financial Officer
Southwestern Vermont Medical Center