

NORTHWESTERN MEDICAL CENTER NARRATIVE ON ACTUAL FISCAL YEAR 2017 RESULTS

NMC's net patient revenue for FY2017 fell short of budget by (\$825,000) or (0.8%). Hospital based volumes were below budget in a wide range of areas while primary prevention services continue to grow. The net patient revenue effect of the reduced volumes was partially offset by lower than anticipated contractual allowance write-offs even though bad debt and free care write-offs were higher than budget.

NPR	Amount	% Over/Under
FY17 Approved Budget	101,935,936	
Bad Debt/Free Care	(1,456,422)	-1.4%
Reimbursement/Payer Mix	2,508,879	2.5%
DSH Payments	(123,894)	-0.1%
Utilization	(1,754,075)	-1.7%
FY17 Actual Results	101,110,424	-0.8%

Operating Expenses	Amount	% Over/Under
FY17 Approved Budget	104,464,400	
Wages	1,126,521	1.1%
Benefits	1,344,510	1.3%
Contracted Services	387,547	0.4%
Provider Tax	316,439	0.3%
Other	44,374	0.0%
FY17 Actual Results	107,683,791	3.1%

As we have stated in previous discussions with the Green Mountain Care Board, even though the net patient revenue cap treats all net patient revenue as though it is the same, it is important to recognize that it is not. Growth in net patient revenue associated with primary prevention and wellness is highly favorable to the statewide pursuit of increasing access, improving wellness and reducing costs while revenue associated with traditional hospital services such as inpatient care, emergency department visits and surgeries is an indication that we are falling short of that goal. We are proud to present our actual 2017 results showing that hospital utilization fell short of budget while our outpatient physician practices and clinics focused on primary prevention and addiction services continue to grow.

- Physician practices exceeded their gross revenue target by \$1.1 million or 3%. Of this, \$940,000 was the result of increased volumes in Primary Care, Pediatrics and Chronic Pain/Narcotics Addiction practices. This growth signals our success in expanding access to primary prevention services in Franklin and Grand Isle counties and we plan to continue to make investments in these services as part of our larger strategy to improve the long term health and wellness of our community and Vermont as a whole.
- Utilization numbers came in below budget in nearly all key hospital based services such as Admissions (2.5%), Emergency Department Visits (6.3%), Operating Room Cases (4.3%), Outpatient Surgical Procedures (9.1%) and Births (6.6%).
- Surgical volume decreases were a result of having a vacancy in our orthopedic practice as well as local independent general surgeons who have decreased volumes late in their careers. We do not

believe that all of these decreases can be attributed to wellness initiatives or statewide patterns as we believe that the need for these services still exists within our community and that short term limitations in provider access led to these results.

- Birth volumes continue to decrease for us in line with the statewide trend of lower birth counts. Through three months of FY2018, births are flat compared with FY2017.
- We continue to work toward reducing Emergency Department visits by investing in Primary Care, Pediatrics, Narcotic Addiction and Urgent Care services. Emergency department visits have been on a downward trend over the last few years and the number of visits in FY2017 was the lowest since FY2007.
- Acute Admissions missed budget by (2.5%) and nearly all of this can be attributed to decreased inpatient surgical volumes.

Operating Expenses exceeded budget by \$3.2 Million or 3.1%

- Wages exceeded budget by \$1.1 million. We experienced significant deviations from budget in the first four months of FY2017, resulting in a variance of \$1.2 million through January, primarily related to nursing staff on the inpatient floors and surgical services departments. This was the result of a high number of orientation hours as well as increased use of overtime and shift-incentive pay for established staff while the new staff completed orientation. We placed additional focus on staffing expenses, including a renewed emphasis on staffing to volume, reducing overtime expense and reducing the use of shift-incentive throughout all departments which resulted in salaries coming in \$100,000 under budget over the final 8 months of the fiscal year.
- Benefits exceeded budget by \$1.3 million, all of which was related to our self-insured health insurance plan. Total claim costs from year-to-year can be highly variable and in FY2017 we experienced a particularly high cost of claims. We do not view this as a signal of a long term shift in costs but rather part of the normal variability in running a self-insured plan. Claims through December of FY2018 are \$600,000 lower than at the same point in FY2017 and are currently slightly below budget.

Other Operating Revenue missed budget by \$550,000

- The most significant variance within Other Operating Revenue was related to billing between NMC and the wholly owned subsidiary, Northwestern Occupational Health (NOH). The majority of this revenue to NMC comes from nurses or providers employed by NMC who work in one of the urgent care facilities operated by NOH as well as administrative services provided by NMC in support of NOH such as human resources, IT, purchasing and accounting. The budget was developed based on FY2016 activity and during that time frame NMC employed providers worked a significant number of shifts in the urgent care facilities. During FY2017, most of these shifts were filled by NOH employed providers. Since NOH is wholly owned by NMC, the reduced cost to NOH is also reflected on the income statement of NMC in the non-operating revenue section as a gain/loss on investments so this budget variance nets to zero when the two lines are viewed together.

Non-Operating Revenue exceeded budget by \$8.75 million

- Non-operating revenue was over budget for the year due to positive returns on our investments. Due to the unpredictable nature of the stock market, no income is budgeted related to these returns.

Impact on FY2018 Budget

- Deviations from budget in FY2017 were either built into the assumptions of the FY2018 budget or have reversed course through the first three months of FY2018 resulting in year-to-date performance that is very close to budget.

Health Reform Investments

- The health reform investments included in the FY2017 budget related to ACO fees for participation in the OneCare ACO. We continue to expand our participation in the program, taking on risk based contracts with all participating payers and look forward to continuing our partnership with the ACO and all other participating providers, facilities and payers to achieve the goals of increased access, reduced costs and the improved health and wellness of all Vermonters.