

SOUTHWESTERN VERMONT MEDICAL CENTER
Financial Summary
Fiscal Year ended September 30, 2017

Southwestern Vermont Medical Center (hereafter “SVMC” or “Hospital”)

The gain from operations was \$1,146,901 higher than budget or a 3.7% operating margin. Below is the comparative summary FY 2017 financial results vs. FY 2016 and FY 2017 budget.

Table #1 – Summary Financial Results

	<u>FY 2016 Actual</u>	<u>FY 2017 Budget</u>	<u>FY 2017 Actual</u>
Net patient service revenues	\$151,922,754	\$152,362,260	\$152,602,902
Other operating revenues	2,730,803	2,811,549	4,564,357
<i>Total operating revenues</i>	<u>154,653,557</u>	<u>155,173,809</u>	<u>157,167,259</u>
<i>Operating expenses</i>	<u>149,354,747</u>	<u>150,544,820</u>	<u>151,391,369</u>
<i>Operating gain</i>	5,298,810	4,628,989	5,775,890
Non-operating activities-net	<u>618,918</u>	<u>605,000</u>	<u>2,034,841</u>
<i>Excess revenues over expenses</i>	<u>\$5,917,728</u>	<u>\$5,233,989</u>	<u>\$7,810,731</u>
<i>Operating margin</i>	<u>3.43%</u>	<u>2.98%</u>	<u>3.67%</u>

This higher than budget operating gain/margin was driven by the increased other operating revenues that will be discussed later in this document. The actual operating margin of 3.67% is in the range of acceptable of operating margins when rating agencies, lending institutions and affiliation partners discuss SVMC performance.

The following is a high level overview of the financial performance and deviations from the budget. This is meant to supplement the details schedules required to be filed annually to the Green Mountain Care Board.

Net Patient Service Revenues

In FY 2017 net patient service revenues of \$152,602,902 was \$240,642 greater than budget or 0.2% and just \$680,148 higher than FY 2016 or 0.4%. It is compliance with the Green Mountain Care Boards budget order for Fiscal Year 2017.

The variance to budget was mainly driven by increased volumes in the outpatient setting and lower inpatient and observation services. The outpatient services increased was primarily due to higher than anticipated volumes in oncology drugs in the Cancer Center, radiation therapy, physical therapy, CT scan and emergency room volumes. These positive variances were offset by lower than anticipated volume in physician practices, operating room, endoscopy, MRI and medical surgical supplies. Additionally, bad debt and charity care amounts were over budget.

Out of State Revenues

In FY 2017 the changing landscape of Healthcare in the Northern Berkshire area of Massachusetts and the eastern New York region in SVMC's service area has continued. In Massachusetts a three physician orthopedic group joined the Hospital staff. This group joined the Hospital staff and the Bennington Orthopedic office mainly to reverse the out migration of orthopedic services in Bennington. However, their high quality and long standing practice in Massachusetts has created a following to SVMC. Additionally, a satellite office remains in Massachusetts.

In Hoosick Falls, New York approximately 10 miles from SVMC, Glen Falls Hospital closed its Hospital Based Health Center leaving approximately 7,500 patients without primary care. In April, several physicians on SVMC's staff from New York combined their practices in Hoosick Falls with SVMC to replace the void left by Glen Falls Hospital.

As a result the Hospital has seen an increase in out of state revenues as shown on the table # 2 below.

Table #2 – Percentage of Net Patient Service Revenues by State of Residence

<u>Fiscal Year</u>	<u>MA</u>	<u>VT</u>	<u>Other</u>	<u>VT</u>	<u>Totals</u>
FY 2014	3.76%	21.07%	1.89%	73.28%	100.00%
FY 2015	4.52%	19.67%	1.60%	74.21%	100.00%
FY 2016	5.35%	20.58%	1.60%	72.47%	100.00%
FY 2017	6.57%	21.43%	1.36%	70.64%	100.00%

The out of state revenues have increased from 26.7% to over 29% in FY 2017.

Payer Mix

Total gross patient charges were \$5,719,176 over budget for FY 2017 or 1.8%. The largest increases in gross patient charge volume was in Medicare and Medicaid.

Table #3 on the below page shows the year to date gross revenue by major payer classification, variance from budget and the percentage of total gross revenue

Table #3 – Payer Mix

<u>Payer</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>%Vary</u>	<u>FY17 %Total</u>	<u>FY16 %Total</u>
Medicare	\$166,801,786	\$157,046,371	\$9,755,415	6.2%	50.6%	49.2%
Medicaid	59,409,450	59,131,486	277,964	0.5%	18.0%	18.6%
Commercial/Other	103,613,640	107,927,843	(4,314,203)	-4.0%	31.4%	32.2%
Total Gross Charges	<u>\$329,824,876</u>	<u>\$324,105,700</u>	<u>\$5,719,176</u>	1.8%	100.0%	100.0%

While Medicare volume increased as a percentage of total the significant reduction in Commercial payer volume resulted of lower net patient service revenues.

Healthcare Reform Initiatives

The impact of SVMC's health reform initiatives were significant in FY 2017. Continued expansion into underserved out of state markets within our service area, access to primary care services and the transitional care program both focused on keeping patients healthy so they don't require more expensive hospital care. Physician practice primary care visits increased by 8,435 visits in FY 2017 or 12% but total physician visits were under plan. SVMC has been focused on improving access to primary care as the major initiative as SVMC moves to a population health model. In FY 2017 the Hospital's outpatient revenues continue to increase as a percentage of total net patient service revenues.

Inpatient and Observation volumes

Table #4 below shows the combined volumes of inpatient and observation services.

Table #4 – Inpatient Medical /Surgical and Observation volumes

	<i>Twelve months ended September 30, 2017</i>			
	<i>Actual FY 2017</i>	<i>Budget FY 2017</i>	<i>Variance</i>	<i>Prior Year FY 2016</i>
<i>Inpatient Acute Admissions</i>	3,383	3,341	42	3,387
<i>Observation Patients</i>	725	1,010	(285)	978
<i>Total Inpatient and Observation Admissions</i>	4,108	4,351	(243)	4,365

Inpatient and observation volume in fiscal year 2017 were lower than budget and prior fiscal years. Inpatient patient admissions of 3,383 were 42 days over budget or 1.26% over plan for the year but were 4 admissions under FY16. Observation cases which require significant resource consumption very similar to inpatient cases were 285 cases under budget or 28.2% and 253 cases under prior year or a 25.9% reduction.

Inpatient volumes were slightly ahead of budget and lower than prior year. Acute inpatient length of stay increased to 3.47 in fiscal year 2017 compared to budget and prior year of approximately 3.30 days. Most of this increase was in the Medicare payer group.

The Hospital experienced an unfavorable shift in inpatient admission payer mix that resulted in net revenue being below budget. Medicare and Medicaid admissions were over budget by 2.4% and 6.0%, respectively and commercial admissions were under budget by 5.4%. Table #5 below shows total admissions (Medical/Surgical, Ob and Newborns) by payer.

Table #5 – Total Admissions by Payer —Fiscal Year 2017

<u>Payer</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>%Var</u>
Medicare	2,067	2,019	48	2.4%
Medicaid	887	837	50	6.0%
Commercial	902	953	(51)	-5.4%
<i>Total admissions</i>	3,856	3,809	47	1.2%

Outpatient Ancillary Volume

Outpatient charge volume was over budget by 3.6% in FY 2017. The single largest variance in the outpatient setting was in the Pharmacy where the high cost drugs in the Cancer Center continues to put pressure on the overall Hospital's revenues budget. Revenues were over \$900,000 above the budgeted revenues in the Pharmacy. There are significant details that management can provide related to the significant increase in the Pharmacy net revenues. 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

Below are other significant outpatient variances.

- SVMC continues to focus on primary care and preventive care physician office visits were 10% off of target;
- Physical Therapy visits were above plan;
- Outpatient surgery volumes were off of plan by 8%;
- Endoscopy procedures were 15% off of plan;
- MRI exams were 8% below plan;

Other Operating Revenue

Other operating revenue of \$4,564,357 was over budget by \$1,752,808 in FY 2017. The significant positive budget variances to budget are listed below:

- SVMC launched our 340b contract pharmacy program in the last quarter of FY 2016 as an initiative for the performance enhancement program. Revenue recorded for the 340b Contract Pharmacy program in FY 2017 totaled \$2.3 million and exceeded budget by approximately \$1.2 million.
- Meaningful use revenue received in the physician practices was \$400,000 higher than budget;
- SVMC received \$121,572 more than planned in the primary care practices for Blue Print and Primary Care Incentive payments in part due to the significant increase in primary care access.

Operating Expenses

Operating expenses of \$151,391,369 were \$846,549 over budget for the year or 0.6%. The significant budget variances include:

- Staff salary expenses were under budget by \$819,752 or 1.8% and total year to date FTE's of 755.3 are 1.4 FTE's under budgeted FTE's of 756.7;
- Employee benefit expenses of \$12,335,213 were \$1,260,310 under budget or, 9.3% primarily as a result of lower than budgeted cost in self-insured employee health insurance programs. The health insurance program was under budget this fiscal year due to favorable claims experience and plan design changes;
- Physician fees and salaries of \$28,753,247 were \$592,691 over budget or 2.1% due in part additional expenses related to hiring locum physicians to cover vacancies in the emergency department, hospitalist and orthopedic practice ;
- Other operating expenses of \$49,154,502 were \$2,281,814 over budget or 4.9%. Significant variances include:
 - Pharmacy drugs were over budget by \$2,778,826 related to increased utilization and cost primarily in Oncology;
 - Emergency department expenses were over budget by \$328,220 related to contract labor and purchased services expense;
 - Chargeable medical supplies were \$340,000 under budget primarily due to the lower than anticipated surgical volume;
 - Laboratory expense was over budget by \$231,157 primarily related to increase in referral lab testing;
 - Acute care Medical/surgical other expense was over plan \$750,338 primarily due to unbudgeted contract labor expense in nursing to cover vacant staff positions;
 - Total administrative expenses were \$670,466 under budget mostly related to favorable variances in purchased services, legal and consulting expense;
 - Plant operation and maintenance expenses were \$222,276 under budget primarily due to significant savings from energy efficiency programs initiated over the last few years.

SVMC Balance Sheet changes in FY 2017

- Cash and cash equivalents decreased by \$6,530,400 from FY 2016 due primarily to the increase in capital spending in FY 2017;
- Accounts receivables decreased by \$348,795 from FY 2016. The day's revenues outstanding in accounts receivables were at 33.4 days at the end of September compared to 36.2 as of September 30, 2016.

It is worth noting that these are ratio's related to SVMC and SVMC only.

Further detail information is available upon request and management urges the GMCB and staff of the GMCB to communicate their additional needs. 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.