NORTHWESTERN MEDICAL CENTER
NARRATIVE ON ACTUAL FISCAL YEAR 2018 RESULTS

NMC's net patient revenue for FY2018 fell short of budget by ($2,810,000) or (2.7%). The variance was primarily due to lower than anticipated gross charges in many of our specialty physician practices, reduced inpatient admissions and a one-time adjustment to Bad Debt expense. Operating expenses were over budget, mainly due to wages and the contract service cost related to temporary staffing, including physicians, which played a part in the revenue variance as well.

NPR	Amount	% Over/Under
FY18 Approved Budget	106,128,223	
Bad Debt/Free Care	(917,784)	-0.90%
Reimbursement/Payer Mix	(778,361)	-0.70%
DSH Payments	(83,377)	-0.10%
Utilization	(1,030,933)	-1.00%
FY18 Actual Results	103,317,768	-2.70%

Operating Expenses	Amount	% Over/Under
FY18 Approved Budget	111,970,210	
MD Wages and Contracts	1,608,840	1.44%
Wages Non-MD	961,932	0.86%
Benefits Non-MD	665,630	0.59%
Interest	(454,334)	-0.41%
Depreciation and Amortization	(974,878)	-0.87%
Other	(202,096)	-0.18%
FY18 Actual Results	113,575,304	1.43%

As the Vermont system continues its effort to transition away from the traditional hospital model of "sick care" to a model of "health care" focused on outpatient preventive services, NMC continues to see outpatient utilization and revenue increase as a share of the total. In FY2013, outpatient gross charges represented 74.8% of total gross charges and in FY2018 that is up to 78.9% and has increased in each year since FY2013. This transition has financial and operational implications that require diligence to manage as many of the expanding outpatient services generate negative margins and pressure is placed on some inpatient services that operate with high fixed costs and now have fewer volumes over which to spread those fixed costs. It is within this context that we view FY2018, one year in a multi-year transitional process.

Net Operating Revenue

- Excluding the Urgent Care and Occupational Health practices that were transferred to NMC mid-year, physician practices missed gross revenue targets by $5.25 million or 11.4%. This was due entirely to our specialty practices, most notably Orthopedics ($2.4 million), Obstetrics ($400,000), and Addiction Medicine ($870,000). Primary Care and Pediatrics Practices exceeded gross revenue targets by $250,000 or 2.0% which is encouraging as we continue to develop the medical home model.

- Orthopedics and Addiction Medicine operated with one fewer physician that had been budgeted. Temporary staff was utilized but temporary physicians typically generate lower volumes than an established physician and come at an increased cost.
- Births continue to decline, down 7.3% from prior year and from budget. This results in lower volumes for our OB/GYN practice and for our inpatient labor and delivery unit.
- Acute admissions were below budget and FY2017 by 8%. Fewer deliveries account for 10% of the reduction while fewer inpatient surgeries (related to orthopedic practice) account for another 30% of the variance. The remaining 60% was a general decrease in medical patients typically admitted through the emergency department.
- Emergency department visits declined by 9% compared to the prior year and 8.7% compared to budget. Total visits came in under budget by 2,367 but it is notable that visits to NMC urgent care facilities in St. Albans and Georgia exceeded budget by 1,299 visits indicating that a positive shift in place of service continues to occur.
- During FY2018, NMC changed the company used for bad debt collection. As part of this transition, a number of accounts with an outstanding balance were written of as Bad Debt. This resulted in a one-time increase in Bad Debt expense that contributed to the variance in FY2018. Write-off rates going forward will not be affected by this transition.
- The expansion of the capitated payment model through OneCareVT has introduced uncertainty into reimbursement rates. During the year, Medicare double paid many claims, once as fee for service and also as part of the monthly fixed prospective payments. Work continues with OneCareVT and Medicare to reconcile the payments. Current estimates suggest that the over payment is in excess of $4 million. This was accounted for at year-end, so we do not believe that the repayment will impact the income statement.
- Within the capitated model, NMC carries maximum risk exposure of $1.6 million. Until all claims have been processed, we will not know if there is shared savings or if NMC will be required to make a risk payment. For much of the year, NMC carried no reserve related to this, however, at the urging of our auditors, we booked a risk reserve of just over $1 million at year end.

Operating Expenses exceeded budget by $1.6 Million or 1.4%

- Physician Wages and Contracts exceeded budget by $1.6 million. This variance was the result of a few physician positions that were vacant and filled by temporary contracted staff. This included an orthopedic surgeon, and multiple hospitalist positions which combined to create a $1.2 million variance. The hospitalist positions have been filled and we have recruited a full-time orthopedic surgeon who will be joining us in the coming year. The cost of the contracted anesthesiology service exceeded budget by $300,000 and is a service that will continue to be reviewed in an effort to bring the cost in line with budget.
- Non-MD wages exceeded budget by just under $1.0 million. A few key areas that contributed to this variance were health information management (HIM) and the emergency department. HIM took on additional duties with the implementation of a new emergency department billing system and the transfer of the two urgent care centers to the NMC billing system mid-year. While visit volumes in the emergency department declined, the acuity of the patient visits is increasing. This includes patients with mental health issues that require 1 on 1 supervision and often result in an extended length of stay.

Other Operating Revenue exceeded budget by $685,000 or 11.7%

- The most significant variance within Other Operating Revenue was related to grant revenue which exceeded budget by $900,000. This does not reflect new grant money that was received but instead is related to the timing of when grant payments are recognized as earned revenue.

Non-Operating Revenue exceeded budget by $4.3 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.

Health Reform Investments

- The FY2018 budget included $407,744 related to the allowable portion of ACO dues which were expected to increase by $462,000. This increased expense was realized.