

January 31, 2019

Pat Jones
Director of Health Systems Finances
Green Mountain Care Board
144 State Street
Montpelier, VT 05620

Dear Pat:

The Fiscal Year 2018 Hospital Budget Submission of Actuals for Northeastern Vermont Regional Hospital (NVRH) has been completed and filed electronically using the worksheets provided by the Green Mountain Care Board. We have also electronically filed a copy of the following documents:

- NVRH's Fiscal Year 2018 Audited Financial Statements
- Verification Under Oath Statement
- "Bridges" Tables for Revenues and Expenses

The following narrative summarizes budget to actual variances and provides an explanation for those variances.

**Northeastern Vermont Regional Hospital
FY 2018 Approved Budget to FY 2018 Actual Results**

NPR	Total	% over/under
FY 2018 Approved Budget	\$ 77,077,400	
Utilization	773,000	1.0%
Reimbursement/Payer Mix	231,200	0.3%
Bad Debt/Free Care	363,500	0.5%
Physician Acq/Trans		0.0%
Pharmacy		0.0%
Changes in Accounting		0.0%
Changes in DSH	-	0.0%
Other (please label)		0.0%
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FY 2018 Actual Results	\$ 78,445,100	1.8%

Utilization increases contributed 1% of the Net Patient Revenue (NPR) variance during fiscal 2018. As noted during our budget presentation NVRH has invested resources to improve access to care for essential services. These services include Urology, Neurology, Primary Care and Orthopedics. Each of the services experienced higher than expected growth. Another cause for the utilization increase was patients awaiting placement in an appropriate facility. These patients are classified as Swing Bed patients. Swing bed admissions dropped from budget by 55 admissions. However, the number of Swing Bed patient days was 184 days higher than budget. This explains the jump in average length of stay for Swing Bed patients from 6.5 days to 14.9 days!

The amount realized as net patient revenue per gross dollar billed was slightly better than budgeted, which also contributed to the NPR growth above budgeted levels. Lastly, uncompensated care levels were slightly lower than budget during fiscal 2018. NVRH works diligently to qualify patients for our Patient Assistance program. Modifications made to our Patient Assistance program in 2017 were intended to help more patients qualify for assistance, and, receive higher discounts. Through 2018 we still haven't seen these anticipated changes occur. NVRH also works with patients who don't qualify for patient assistance to develop payment plans that matches the patient's ability to make payments.

**Northeastern Vermont Regional Hospital
FY 2018 Approved Budget to FY 2018 Actual Results**

Expenses	Amount	% over/under
FY 2018 Approved Budget	\$ 78,579,100	
Salaries	427,900	0.5%
Fringe Benefits	533,400	0.7%
Physician Salaries/ Contracts	(300,000)	-0.4%
Contract Staffing	1,200,000	1.5%
Supplies and other Non Salary Expenses	116,100	0.1%
Drugs	204,000	0.3%
Facilities	30,000	0.0%
IT Related	300,000	0.4%
Depreciation	130,400	0.2%
Interest	(121,600)	-0.2%
Health Care Provider Tax	-	0.0%
Increased Staffing and other Expenses for Patients Awaiting Placement	325,000	0.4%
Other (please label)		0.0%
FY 2018 Actual Results	\$ 81,424,300	

A significant portion of unbudgeted expenses were spent providing care to patients that could not be timely-placed in a more appropriate health care facility. The need for additional expenses to care for these patients increased as we made patient-centered improvements recommended by CMS during three on-site surveys throughout the year.

Employees and their family members covered by NVRH’s self-funded health plan had higher than expected claims during the year. Our stop loss policy prevented a significantly higher variance.

NVRH has been unable to recruit several physicians in key areas including: General Surgery, Obstetrics/Gynecology and Pediatrics. In order to meet the community’s need for these services NVRH used locum tenens providers extensively. Throughout 2018 we had an average of 11 RN vacancies. There were also vacancies in other ancillary departments. High patient volume levels required the extensive use of traveler/temporary agency staff to maintain adequate staffing levels. Combined, our temporary contract staffing costs exceeded budget by \$1,200,000.

We experienced slightly higher utility costs during the year. NVRH continues to use compressed natural gas as our primary heating source. During the year NVRH converted to all LED lighting, which will reduce utility costs by \$40,000 annually.

Throughout 2018 NVRH prepared for a major computer conversion on September 1st. Due to staffing shortages, resulting from turnover, NVRH hired a consultant to function as staff at premium rates during part of the year.

NVRH takes full advantage of 340B pharmacy savings. Although these savings amount to over \$800,000 annually, drug costs still exceeded budget by over \$200,000.

Higher depreciation expense was offset by lower than expected interest expense. An anticipated issuance of new debt did not occur during 2018.

Other Operating Revenue (OOR)	Amount	% Over (Under)
FY 18 Budget OOR	\$2,955,000	
Unrestricted Interest Income	310,700	10.5%
Change in 340B Retail Sales	658,300	22.3
Change in Reference Lab Net Revenue	485,500	16.4
FY 18 Actual OOR	\$4,409,500	49.2%

Unbudgeted unrestricted-interest income totaled \$310,700. The amount of unrestricted interest fluctuates widely from year to year. We continue to educate providers on 340B opportunities. New contracts during the year also contributed to additional 340B revenue. Fiscal 2018 was the first year of separating reference lab revenue from net patient revenue. The initial budget didn’t include all sources of reference lab services.

Non-Operating Revenue (NOR)	Amount
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FY18 Budget NOR	\$ 0
Change in Gain on Sale of Investments	370,700
Unrealized Loss on Investments	(48,500)
Other Non-Operating Revenue	133,100
FY 18 Actual NOR	\$ 455,300)

Update on Investments Made In Health Reform Activities

During 2018 NVRH anticipated three new health reform activities. Progress made on each of these initiatives is described below.

- a) Adding RN To Provide Core Home Services - Due to lack of RN availability at the local home health agency we have been unable to implement this service. We still plan to implement the service once sufficient RN resources become available

- b) Community Paramedics - we have been working with our local ambulance services to prepare this service. Protocols have been developed. Referral guidelines are nearing completion. Lack of full staffing in the ED has caused some of the delay. NVRH is still committed implementing the Community Paramedic program.

- c) SBIRT - in place of the hiring SBIRT resources, NVRH took advantage of the opportunity to hire a part time psychiatrist, Dr. Cynthia Swartz. In addition to seeing patients Dr. Swartz is also a resource to our primary care, Hospitalist and ED providers with a focus on primary care providers. Her support for primary care providers frees up the time for those providers to see more acute medical patients, which improves access to primary care services. Dr. Swartz did a great job explaining her role and its impact on reforming healthcare in the NEK during NVRH's budget presentation in August.

If there are any questions on the narrative or any Fiscal Year 2018 Hospital Budget Submission of Actuals for Northeastern Vermont Regional Hospital, please contact Terri Schoolcraft or me.

Sincerely,


Bob Hersey, CFO

CC: Shawn Tester, CEO
Terri Schoolcraft, Controller