

January 31, 2020

Mr. Patrick Rooney, Director of Health System Finances
Green Mountain Care Board
144 State Street
Montpelier, VT 05620

Dear Patrick,

The following narrative highlights the operating performance of Rutland Regional Medical Center for the fiscal year ended September 30, 2019. RRMC's audited financial statements will be available February 10th. We will send an electronic copy of RRMC's fiscal year 2019 audit report as soon as it becomes available.

Utilization

Fiscal year 2019 actual Gross Patient Service Revenue (GPSR) was over budget by \$4.9 million or .9%.

Overall, inpatient routine revenue was over budget by \$1 million. Total admissions were on budget and patient days were under budget 1.7% or 553 days. RRMC's actual average length of stay of 4.58 approximately .15 or 3.2% under budgeted expectations. Total patient day volume was under budget however we experienced a higher mix in our Intensive Care Unit.

Inpatient ancillary services revenue was under budget by \$4.3 million or 2.9%. Services of note include:

Positive Variances:

Pharmaceutical – introduction of new drugs to market

Negative Variances:

Surgical Services – decline in inpatient surgical volume

Respiratory Therapy – relates to decline in patient day volume

Outpatient ancillary services revenue was over budget \$8.0 million or 2.4%. Services of note include:

Positive Variances:

Pharmaceutical – increased utilization of oncology drugs & new drugs to market

Diagnostic Imaging – increased utilization across most modalities

Negative Variances:

Radiation Therapy – decline in utilization

Endoscopy - access to care and physician capacity

Observation Care – Observation days under budget 264 or 11.5%

Net Patient Revenue

Although gross revenue exceeded budget by \$4.9 million our need for additional reserves resulted in Net Patient Service Revenue (NPSR) being under budget \$2.3 million equivalent to .9%. In Fiscal 2019 there were three main drivers to the decline in NPSR.

- Erosion of our payer mix
- The impact of high deductible commercial insurance programs resulted in increased reserves for the under-insured and un-insured (Bad Debt and Free Care)
- Reimbursement loss from participation in OneCare

NPR	Amount	% over/under
FY 19 Approved Budget	\$258,721,000	
Increased (decreased) Utilization (net)	3,884,000	
Other/Change in Payer Mix	(3,534,000)	
Free Care/Bad Debt Utilization	\$ (1,603,000)	
Medicaid DPS	(17,000)	
Psychiatric Cost Settlement	668,000	
OneCare Participation	(1,716,000)	
FY 19 Actual Results	\$ 256,403,000	.9%

Other Operating Revenue

Other Operating Revenue was over budget by \$3.1 million or 19.7%. This overage is driven by increased volume relating to our 340b pharmacy program which was over budget by \$2.9 million for the year.

Operating Expenses

Total operating expenses were over budget by \$5.8 million or 2.2%. This variance was driven by the following:

Salaries & Payments to Physicians over budget \$2.2 million.

- Physician Salaries – on boarding of 5 new physicians and other contractual changes

- Physician Locums - increased utilization of Locums providers in our Psychiatric units, Hospitalist Program, and Emergency Department.
- Other Operating Expenses are over budget by \$3.5 million

Positive Variances:

- Defined Benefit Pension – due to plan funded status and changes in discount rate
- Health Insurance – decrease in claims against our self-insured policy
- Depreciation - due to a delay in the completion in capital projects

Negative Variances:

- Temporary Staff - FTEs over budget 27
- Pharmaceutical (including 340b) - relates to increased utilization of high cost drugs

Bridges - FY 2019 Approved Budget to FY 2019 Actual Results

Expenses	Amount	% over/under
FY 19 Approved Budget	\$ 268,220,000	
Physician Contracts	2,280,000	
Salaries	143,000	
Fringe Benefits	(2,846,000)	
Contract Staffing	3,992,000	
Supplies (OR Supplies, Distribution)	(354,000)	
Pharmaceuticals	4,267,000	
ACO Dues	(164,000)	
Health Care Provider Tax	(110,000)	
Depreciation	(704,000)	
Interest & Bond Expense	(199,000)	
Cost Savings	(508,000)	
FY19 Actual Results	\$ 274,017,000	2.2%

Non-Operating Revenue

Total dividends and market value adjustments resulted in gains of \$4.7 million. This was under budget by \$1.2 million

Operating Margin

RRMC's Operating Margin for Fiscal 2019 was .5% against a budget of 2.4%. This is the third year that we have not met budgeted operating margins.

As referenced in YTD email we are also providing responses to the following questions.

- Information about the hospital's financial controls, including oversight by the hospital's Board of Directors.

RRMC has a mature planning process which includes a 3-year Strategic Plan, Strategic Financial Plan and 1-year Action Plan. These plans are reviewed and approved by our Board of Directors at the start of our annual budget process. Our Executive Finance Committee (a sub-committee of the RRMC Board) meets monthly to review our financials. The full RRMC Board of Directors reviews hospital financial performance on a bi-monthly basis. Non-Facility Capital Projects greater than \$250,000 and Facility Capital Projects greater than \$500,000 are approved by the Executive Finance Committee. Projects requiring a CoN are also approved by the Executive Finance Committee prior to committing funds.

- Information about whether the hospital's filings and associated payments are current (e.g., payroll taxes, unemployment insurance)

Yes, we are current.

- Information on the hospital's credit rating.

The hospital does not have a credit rating. When we benchmark, we align ourselves with Standard and Poor's A rated performance measures for stand alone hospitals. We also monitor our 3 debt covenant requirements on a monthly basis to ensure compliance and monitor additional debt capacity.

Please feel free to call me if you have any questions or concerns regarding information relative to our 2019 performance and the binding budget process.

Sincerely,

Judi Fox
Chief Financial Officer