

NORTHWESTERN MEDICAL CENTER NARRATIVE ON ACTUAL FISCAL YEAR 2020 RESULTS

NMC's net patient revenue for FY2020 fell short of budget by \$19,750,000 or 16.9%. The largest factor was reduced utilization during the spring and early summer as many non-emergent services were closed or scheduling was significantly delayed. Operating expenses ended \$3,000,000 or 2.4% below budget. Efforts to reduce staffing had occurred prior to the Covid-19 related reduction in utilization and staffing and supply expenses were further reduced as a result of lower utilization. These reductions were partially offset by unfavorable variances in Employee Benefits and Traveler (contracted RN) costs.

NPR/FPP	Total	% over/under
FY 20 Approved Budget	\$ 116,926,579	
Utilization	(13,678,313)	-11.7%
Reimbursement/Payer Mix	183,360	0.2%
Bad Debt/Free Care	(1,176,318)	-1.0%
Changes in DSH	22,951	0.0%
Other - FPP Variance	(5,097,364)	-4.4%
FY 20 Actual Results	\$ 97,180,895	-16.9%

Change in ACO Dues Reporting	1,374,744	1.2%
Adjusted FY 20 Actual Results	\$ 98,555,639	-15.7%

Expenses	Amount	% over/under
FY 20 Approved Budget	\$ 122,388,212	
Salaries	(3,623,627)	-3.0%
Fringe Benefits	1,156,670	0.9%
Physician Contracts	387,060	0.3%
Supplies	(1,591,231)	-1.3%
Depreciation	(961,790)	-0.8%
Health Care Provider Tax	(927,174)	-0.8%
Traveler RN	2,472,743	2.0%
Other - Misc	122,733	0.1%
FY 20 Actual Results	\$ 119,423,596	-2.4%

Change in ACO Dues Reporting	1,374,744	1.1%
Adjusted FY 20 Actual Results	\$ 120,798,340	-1.3%

Net Operating Revenue

- Utilization was the primary driver of the FY2020 NPR variance. Through February 2020, gross charges were within 1% of budget with an average monthly amount of \$18.5 million. For March through June, average monthly gross charges were \$12.3 million, and the average for the final three months of the fiscal year was \$17.1 million. Elective surgeries along with non-emergent office visits, imaging procedures and lab tests were initially cancelled or delayed until appropriate safety procedures could be implemented based on CDC and VT Department of Health guidelines. The implementation of certain safety protocols increased the time needed to provide certain services (i.e. time between OR cases to allow adequate ventilation) and a general sense of caution within our community resulted in fewer routine appointments being scheduled. Utilization has returned to levels closer to normal in the late fall and winter months. Telemedicine has played a key roll in restoring access to services for our community and both patients and staff are now comfortable with the precautions that are in place.
- As noted in our FY2021 budget submission, Fixed Prospective Payments fell short of budget. This was described in the FY2021 budget narrative:

“FPP will end the year considerably under budget. We found that this variance began with an error in the FPP calculation from Medicare in early 2019. Payments from Medicare were considerably higher than they should have been and while preparing the budget for FY2020, this error was unknown to us and to Medicare. When the error was identified and corrected, the budget was not updated to reflect the lower level of payments. “

- We experienced a high level of Bad Debt write-offs in FY2020. Cash collection at time of service is a key focus for FY2021 as we continue to work on reducing Bad Debt write-offs.

Operating Expenses

- Non-MD wages ended the year \$3.6 million or \$8.1 under budget. This was due to an involuntary reduction in force that was planned and implemented prior to the impacts of Covid-19 as well as reductions in worked hours due to low utilization following the impact of Covid-19. Total Non-MD FTEs ended the year 69.3 FTEs under budget or 10.2%. This was partially offset by temporary Traveler RNs as noted below.
- Traveler expense ended the year \$2.5 million over budget and continues to be a challenge in FY2021 as reflected by an increase in the budget for this item from \$300,000 in FY2020 to \$1.8 million in FY2021. Total non-MD FTEs, with Traveler FTEs included, finished under budget by 8.6% but the total expense for non-MD and traveler staffing ended the year under budget by only 2.6%, reflecting the premium paid for temporary RN staffing.
- Supply expense was reduced as a result of reduced utilization.

- NPR in FY2019 fell well below projections after implementation of a new electronic health record and billing system in our outpatient physician practices. This reduced NPR resulted in a favorable variance in the FY2020 Medicaid Provider Tax expense.
- Major capital projects have been delayed because of unfavorable financial results over the past few years and uncertainty around future utilization patterns throughout and following the Covid-19 pandemic. This has resulted in a favorable variance in Depreciation expense.

Other Operating Revenue exceeded budget by \$15.9 million or 205%.

- Covid-19 stimulus and hazard pay funding totaled \$14.5 million.

Non-Operating Revenue fell below budget by \$2.0 million resulting in a Non-Operating Loss of \$260,000

- Non-Operating Revenue consists primarily of items driven by the broader financial markets, including capital gains/losses, income from interest and dividends, and fair market value fluctuations of our bond swap agreement. Due to the unpredictable nature of these items, most are budgeted to be zero. In FY2020, interest rates fell which has an unfavorable impact on our position in a bond swap agreement. The market value of our Bond Swap agreement went down by \$1.1 million. Investment returns were negative in FY2020, resulting in a net loss (Realized and Unrealized combined) of \$700,000.