To: The Honorable Kevin Mullin, Chair, Green Mountain Care Board

From: Dr. John Brumsted, CEO, University of Vermont Health Network
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Date: February 1, 2021

Subject: Fiscal Year 2020 Actual-to-Budget Narrative

University of Vermont Health Network Executive Summary

Introduction

The effects of the COVID-19 pandemic drove our financial performance in FY 2020 and laid bare the financial fragility of the UVM Health Network's Vermont hospitals. Over the past year, those hospitals have lost millions of dollars, our bond rating has been called into question by our rating agencies, and we continue to incur both lost revenue and unbudgeted expenses in order to play a leading role in helping Vermont respond to the pandemic. We are extraordinarily proud of that role, but we are equally concerned about our financial future. The UVM Health Network did not enter FY 2020 with the degree of financial health necessary to weather the COVID-19 storm without threatening its ability to respond to Vermonters' ongoing needs. We will require several years to return to the level of financial stability that will allow us to continue to provide the services Vermonters have become accustomed to receiving close to home. In this current fiscal year and beyond, we hope we can have productive conversations with the Board about how we can be regulated in a manner that recognizes the importance of rebuilding the financial strength of the UVM Health Network's Vermont hospitals so that Vermont's health care system is well prepared both to respond to extraordinary events and to deliver extraordinary care under normal circumstances.

Narrative

Over the past several budget cycles, the UVM Health Network's allowed commercial rates, and therefore its revenues, have not kept up with increasing expenses of caring for our patients – most of these expenses are driven by forces outside of either the UVM Health Network's or the Board's control. Even prior to the arrival of COVID-19 in Vermont, the operating margins of our Network's Vermont hospitals had fallen below the healthy and sustainable levels that will allow us to continue to invest in necessary services that Vermonters expect to receive locally, and we are in real jeopardy of being unable to meet those patients' needs in the future.

Vermonters are aware of the quality and breadth of the care that we deliver; they also realize that much of the care offered by the UVM Health Network is not and cannot be delivered elsewhere in Vermont. Maintaining access to this broad array of high quality services literally rests on our ability to properly fund the services we provide.

As the UVM Health Network reported in its FY 2021 budget submission to the Board, the COVID-19 pandemic has wrought extraordinary uncertainty on Vermont's health care delivery system, and the financial impact has been staggering. Whether here in Vermont, across the country, or across the world, health care providers responded to this once-in-a-century global health crisis with urgency and compassion. We have incurred extraordinary expenses to expand capacity and keep staff and patients safe, long before we knew what federal or state support would be made available to safety net providers. Ever since the first case of COVID-19 was identified in Vermont in March 2020, this has been an ever-changing situation. Our FY 2020 financial position was severely impacted by our Network's response to the pandemic – with the increased expenses to safely outfit staff with appropriate personal protective equipment (PPE) and to prepare physical spaces in our facilities for a surge of COVID-19 patients, the cancellation of non-emergent and elective procedures to slow the spread of the virus, and the resulting loss in normal operating revenues as patients delayed their care. We stepped in on a moment's notice at the State's request to staff nursing homes that were on the cusp of failing to meet the most basic needs of their patients due to the pandemic, with no request or expectation of payment. To help offset these losses, the UVM Health Network instituted expense reductions through the end of FY 2020, such as a freeze on almost all capital spending with a few patient care-focused exceptions, and reductions in base pay and elimination of both incentive pay and employer retirement benefit contributions for leaders (directors and above) across the Network.

The UVM Health Network partnered with the State of Vermont to respond to the health care crisis and meet the needs of our communities. Examples include:

- The Network, in collaboration with the Vermont Department of Health, was asked by the Governor to take on the statewide triaging of all COVID-19 tests. Our Department of Pathology and Laboratory Medicine worked tirelessly to meet the ever-expanding testing needs of our state's COVID-19 response.
- The Network established resource distribution protocols for scarce statewide resources, and became one of the primary purchasers for the State of Vermont for PPE.
- The Network, in collaboration with all Vermont hospitals and Dartmouth-Hitchcock, developed and instituted a Patient Transfer Center (PTC) to allow for the swift and timely movement of COVID-19 patients. This action, under the authority of the State of Vermont, was instrumental in developing the statewide surge plan.

The financial results in this submission show that FY 2020 was a challenging year due to the myriad effects of the pandemic. FY 2020 was simply about one common purpose – managing through the COVID-19 crisis as best we could, with little ability to foresee the financial toll these precautions would create. For the UVM Medical Center especially, COVID-19 has created an immense budgetary hole from which it will take multiple years to recover.

It is clear that the COVID-19 crisis continues. Managing to the evolving response to COVID-19 has become our new normal. The next frontier of the pandemic will be our continued partnership with the State of Vermont and other health care providers to vaccinate the people of our region; individual hospital efforts shift from solely virus containment to robust vaccine rollout, while ensuring we have capacity for any new surge of COVID-19 patients. The UVM Health Network has again answered the call, put out by the State, to stand up and operate mass vaccination sites in our service areas.

The pandemic will carry through much, if not all, of FY 2021. The same uncertainties that were present in FY 2021 budget planning will continue in FY 2022 budget planning, and COVID-19 impacts will also be present in FY 2021 actual results. As the UVM Health Network navigates the path to financial recovery from COVID-19, what will remain unchanged is the Network's commitment to its patients, communities, and people.

Summary of Patient Revenue (NPR+FPP) Change
FY 2020 Budget to FY 2020 Actual

Hospital	FY 2020 Actual	FY 2020 Budget	Difference	
UVM Medical Center	$ 1,199,728,235	$ 1,348,125,703	$ (148,397,468)	-11.01%
Central Vermont Medical Center	193,820,404	$ 218,043,247	$ (24,222,843)	-11.11%
Porter Hospital	77,472,726	$ 87,487,539	$ (10,014,813)	-11.45%
Total UVMHN - VT Hospitals	**$ 1,471,021,366**	**$ 1,653,656,489**	**$ (182,635,124)**	-11.04%

Central Vermont Medical Center

NPR/FPP	Total	% over/under
FY 20 Approved Budget	$ 218,043,247	
Utilization	(18,206,090)	-8.3%
Reimbursement/Payer Mix	(6,937,645)	-3.2%
Bad Debt/Free Care	967,309	0.4%
Physician Acq/Trans	-	0.0%
Changes in Accounting	-	0.0%
Changes in DSH	(46,417)	0.0%
Other (please label)		
Other (please label)		
FY 20 Actual Results	$ 193,820,404	-11.1%

NPR, FPP & Health Reform Payments
$ Variance: ($24.2M)
% Variance: (11.1%)

The FY 2020 Total NPSR + FPP + OCV Revenue was unfavorable by $24.2M or -11.1% when compared to the FY 2020 budget primarily due to the impact of COVID-19 on operations. Beginning March 20, 2020 and continuing until mid-May, all non-urgent surgeries, procedures, and clinic visits were suspended, driving utilization down by 8.3%. Bad debt and charity care combined were $967K under budget, keeping in line with reduced gross patient revenue. In addition to decreased utilization, there was also a continuing erosion in payer mix and collection rates.

Other Operating Revenue
$ Variance: $24.5M
% Variance: 151.3%

Other revenue was over budget by $24.5M, primarily due to federal, state, and other miscellaneous COVID-19 funding received and recognized in FY 2020, totaling $25.3M. Other contract pharmacy 340B revenue was also over budget by $1.3M.

Expenses	Amount	% over/under
FY 20 Approved Budget	$ 234,056,135	
Salaries	4,437,580	1.9%
Fringe Benefits	(119,314)	-0.1%
Physician	(1,405,794)	-0.6%
Contract Staffing	2,403,216	1.0%
Supplies	(1,359,680)	-0.6%
Drugs	711,942	0.3%
Facilities	(119,791)	-0.1%
Software Related	659,305	0.3%
Health Reform Programs		
Depreciation	(1,636,684)	-0.7%
Interest	316,108	0.1%
Health Care Provider Tax	(1,735,410)	-0.7%
Purchased Services	817,637	0.3%
Other	(1,177,472)	-0.5%
Cost Savings		
FY 20 Actual Results	$ 235,847,779	0.8%

Staff Salaries
$ Variance: $4.4M
% Variance: 1.9%

Non-MD salaries were over budget by $4.4M or 1.9% in total. $1.2M of this was the extra week of pay for employees earning $99K or less as a one-time discretionary COVID relief bonus.

Fringe Benefits
$ Variance: ($119K)
% Variance: (0.1%)

Fringe benefits were slightly under budget, with savings in medical and dental insurance offset by increases in pension expenses of $1.6M related to a change in accounting regulations.

Physician Salaries
$ Variance: ($1.4M)
% Variance: (0.6%)

Physician fees were under budget by $1.4M or -0.6%, due to staffing mix and turnover in areas of the hospital with higher salaries, as well as a suspension of the physician variable compensation.

Contract Staffing
$ Variance: $2.4M
% Variance: 1.0%

CVMC had 14.9 traveler FTEs with an associated expense of $2.6M ($2.4M higher than budget) for an average cost per FTE of $175K, a 10% rate increase from previous years. More than half of these travelers were needed to care for patients at our Woodridge Nursing and Rehabilitation facility.

<u>All Other Operating Expenses</u>

$ Variance:	($3.5M)
% Variance:	(3.9%)

Supplies were under budget by 0.6% due to declining volumes related to COVID-19, while drug expense was still over budget by 0.3% despite declining volumes. Drug expense overage in the FY 2020 budget is a result of chemotherapy drugs; the expense for oncologic drugs utilized increased over 25% from FY 2019 to FY 2020. Software expense is over budget, mostly due to the Epic implementation and subscription fee expenses. Depreciation is under budget by $1.6M due to delayed capital spending. Interest expense is over budget due to an additional loan that was secured after the budget was finalized. Heath care provider tax was $1.7M or 0.7% under budget due to less than budgeted Net Patient Revenue. Purchased services were over budget by 0.3% mainly due to anesthesia services and an increase in outside lab costs for COVID-19 testing.

<u>Net Operating Margin</u>

$ Variance:	($1.5M)
% Variance:	-805.1%

In FY 2018 CVMC posted an operating loss of $7.9M. In FY 2019 CVMC was able to reduce that loss to $4.7M, and in FY 2020 the loss was further reduced to $1.3M. As a result of a change in accounting standards, CVMC recognized $2M in operating expenses attributed to FY 2020 pension cost. This unanticipated change resulted in a shift in CVMC's margin from a positive of $860K to a $1.3M loss. The other components of the net periodic pension cost was recorded in non-operating expenses as a $2.1M credit.

<u>Non-Operating Revenue</u>

$ Variance:	$8.5M
% Variance:	214.5%

Non-operating revenues were favorable to budget by $8.5M due to favorable returns and funding status in pension and other investment activity. The change in discount rate from 3.25% at 9/30/2019 to 2.8% as of 9/30/2020, offset by stronger actual investment returns, was the major driver behind this variance.

<u>Total Margin</u>

$ Variance:	$7M
% Variance:	168.6%

Operating revenues were $285K favorable to budget, operating expenses were $1.8M unfavorable, and non-operating revenues were favorable by $8.5M.

Porter Hospital

NPR/FPP	Total	% over/under
FY 20 Approved Budget	$ 87,487,539	
Utilization	(7,710,344)	-8.8%
Reimbursement/Payer Mix	(5,224,844)	-6.0%
Bad Debt/Free Care	294,294	0.3%
Physician Acq/Trans	-	0.0%
Pharmacy	-	0.0%
Changes in Accounting	-	0.0%
Changes in DSH	(33,863)	0.0%
FY19 & FY20 Critical Access Medicare Settlement Rate	697,799	0.8%
2019 ACO Settlement	1,783,610	2.0%
Change in APM Model Reserve	178,535	0.2%
FY 20 Actual Results	$ 77,472,726	-11.4%

NPR, FPP & Health Reform Payments
$ Variance: ($10M)
% Variance: 11.4%

Porter Hospital's Net Revenue as compared to the FY 2020 approved NPR was unfavorable by 11.4%. This decrease was primarily driven by two components: the impact of the COVID-19 pandemic on routine operations, and the implementation of the new Epic EMR in our ambulatory practices. The second quarter of the year was heavily affected by the pandemic, but the effects continued to impact the rest of the fiscal year.

Other Operating Revenue
$ Variance: $6.0M
% Variance: 93.9%

Other operating revenue exceeded budgeted expectations. This is primarily driven by the state and federal funding received to offset the impacts of the COVID-19 pandemic.

Expenses	Amount	% over/under
FY 20 Approved Budget	$ 90,277,336	
Salaries	(1,385,864)	-1.5%
Fringe Benefits	(1,670,949)	-1.9%
Physician	(1,212,603)	-1.3%
Contract Staffing	1,831,370	2.0%
Supplies	(116,323)	-0.1%
Drugs	176,381	0.2%
Facilities	(25,752)	0.0%
Software Related	64	0.0%
Health Reform Programs		
Depreciation	(545,416)	-0.6%
Interest	5,815	0.0%
Health Care Provider Tax	(347,027)	-0.4%
Purchased Services	363,781	0.4%
Other	(1,180,298)	-1.3%
Cost Savings		
FY 20 Actual Results	$ 86,170,515	-4.5%

<u>Salaries & Fringe Benefits</u>
$ Variance: ($2.4M)
% Variance: 4.4%

Total expenses reflect a decrease as compared to budgeted expectations. The favorable salary expense variance was driven by the implementation of a variety of cost savings measures which allowed Porter to reduce expense while enabling us to maintain staffing levels. These efforts were aided by government programs which complemented internal savings due to the pandemic. These savings were offset by continued reliance on temporary labor, specifically in the areas of nursing, laboratory, radiology, and pharmacy technicians, which also contributed to the variance in salaries.

<u>Depreciation</u>
$ Variance: ($545K)
% Variance: 0.6%

Depreciation expense was favorable to budget by 0.6%, which is due to realized savings from a freeze placed on capital expenditures.

<u>All Other Operating Expenses</u>
$ Variance: ($1.1M)
% Variance: 3.7%

All other expenses reflected a favorable result, primarily due to savings in insurance expense, provider tax, education and travel, collections, and shared Network savings.

Net Operating Margin
$ Variance: $83K
% Variance: 0.3%

Operating margin performance was favorable to budgeted expectations. The positive performance from an operating perspective was mainly driven by the overall savings in expenses and the state and federal funding which helped offset the loss of revenue due to the impact of the COVID-19 pandemic. Favorable 2019 performance in the ACO and FY 2020 cost report assumptions also contributed to the favorable margin outcome.

Non-Operating Revenue
$ Variance: ($310K)
% Variance: 58.8%

Non-operating revenue was unfavorable to budget and is primarily due to the adoption of the pension accounting. Without this adoption, non-operative revenue would have reflected as favorable to budget by $44K.

Total Margin
$ Variance: ($227K)
% Variance: 5.5%

Total margin exceeded budgeted expectations due to aforementioned factors.

University of Vermont Medical Center

Total Patient Revenue: NPR + FPP + Health Reform Revenues
$ Variance: ($148.4M)
% Variance: (11.0%)

The major driver of the unfavorable revenues was the COVID-19 pandemic. Cancelling all non-emergent/elective cases in March 2020 severely impacted our revenues from March through May. The Fanny Allen operating room closure November 2019 through January 2020 due to environmental concerns also contributed to lower than anticipated revenues. Offsetting these lower revenues were higher pharmaceutical revenues driven by higher utilization and higher cost drugs.

Other Operating Revenue
$ Variance: $115.0M
% Variance: 80.0%

The majority of the favorable variance was due to COVID-19 related funding, including: State of Vermont Health Care Stabilization funds $37.0M; HHS federal CARES Act funding $30.7M; reimbursement from the State of Vermont and Dartmouth-Hitchcock for COVID-19 related supplies $5.5M; Vermont Medicaid retainer payments $3.3M; and State of Vermont hazard pay pass through $3.2M. Additionally, our outpatient pharmacy operations generated a $23.0M positive variance.

Due to a required accounting change, grant revenues were reported as operating revenue versus non-operating revenue. This occurred after we submitted our FY 2020 budget, thus $9.6M of this variance is due to that change. This required change also impacted expenses, and since grant revenues equal grant expenses, this change had a zero dollar impact on the bottom line.

Staff Salaries
$ Variance: ($24.4M)
% Variance: (5.0%)

UVM Medical Center paid one week of salary to all employees earning less than $99K to help with COVID-19 related furloughs and reduced hours, which amounted to $6M. State of Vermont hazard pay amounted to $3.2M, and due to workforce challenges, there was an increased utilization of travelers and other premium pay factors, which added approximately $16M to this variance.

Due to the required accounting change highlighted above, grant salaries generated a $3.0M unfavorable variance.

Offsetting these negative variances was the work we did to mitigate the financial impact of the COVID-19 pandemic, which included furloughing staff, reducing hours, requiring time off usage, eliminating incentive compensation, and salary reductions for directors and above.

Physician Salaries
$ Variance: $11.2M
% Variance: 6.1%

Professional revenues, due to COVID-19, were lower than budgeted, which negatively impacted the physician group's financial performance. There is an adjustable portion of the physician group's salary based on financial performance. Since that financial performance was not achieved, the adjustable portion of salary was not paid, which created the positive variance.

Fringe Benefits
$ Variance: $7.9M
% Variance: 5.0%

There was a favorability due to elimination of employer retirement contributions for directors and above and physicians as part of our COVID-19 financial mitigation efforts. Lower FICA taxes and claims experience in our self-funded health plan also contributed to the variance.

All Other Operating Expenses
$ Variance: ($13.8M)
% Variance: (2.2%)

Higher medical surgical supplies of $5.4M driven by COVID-19 related supplies, which were partially offset by reimbursements from Dartmouth-Hitchcock and the State of Vermont (see other revenue above), higher outpatient pharmacy expense of $14.2M driven by increased volumes in specialty drugs and mail order, higher purchased services of $8.5M largely driven by the use of outside labs for COVID-19 testing, and increased other expenses of $6.9M driven by higher shipping costs during the pandemic and other COVID-19 related costs.

Offsetting these negative variances was $8.4M of favorable provider tax expense from lower revenues and $13.4M of favorable variances across other areas, driven in part by our COVID-19 financial mitigation efforts.

Net Operating Margin
$ Variance: ($52.5M)
% Variance: (113.3%)

The negative variance was caused by a combination of increased expenses related to COVID-19 and significantly lower volumes during the State of Vermont's stay home order and cancellation of all non-emergent/elective cases from March through May. The margin variance would have been much worse had it not been for state and federal relief funds and the work UVM Medical Center did to mitigate the financial impact of the COVID-19 pandemic. The financial impact was approximately $180M. We received $66M in relief funds, and our mitigation efforts offset this impact by another $84M.

Non-Operating Revenue
$ Variance: ($29.8M)
% Variance: (163.7%)

Transfer of net assets related to moving VMCIC (captive insurance company) from a UVM Medical Center subsidiary to a UVM Health Network subsidiary, partially offset by favorable market performance.

Total Margin
$ Variance: ($82.3M)
% Variance: (127.5%)

Large unfavorable operating margin variance along with a transfer of net assets, partially offset by favorable market performance offset.

Bridges - FY 2020 Approved Budget to FY 2020 Actual Results

NPR/FPP	Total	% over/under
FY 20 Approved Budget	$ 1,348,125,703	
Utilization	(112,479,592)	-8.3%
Reimbursement/Payer Mix	(36,664,635)	-2.7%
Bad Debt/Free Care	838,726	0.1%
Physician Acq/Trans	-	0.0%
Changes in Accounting	-	0.0%
Changes in DSH	(91,967)	0.0%
Other (please label)	0.00	0.0%
Other (please label)	0	
FY 20 Actual Results	$ 1,199,728,235	-11.0%

Bridges - FY 2020 Approved Budget to FY 2020 Actual Results

Expenses	Amount	% over/under
FY 20 Approved Budget	$ 1,445,462,587	
Salaries	(1,867,622)	-0.1%
Fringe Benefits	(9,086,449)	-0.6%
Physician	(12,084,024)	-0.8%
Contract Staffing	23,056,263	1.6%
Supplies	3,121,584	0.2%
Drugs	14,787,787	1.0%
Facilities	(6,171,623)	-0.4%
Software Related	(4,804,106)	-0.3%
Health Reform Programs		
Depreciation	580,921	0.0%
Interest	139,421	0.0%
Health Care Provider Tax	(8,386,900)	-0.6%
Purchased Services	6,690,372	0.5%
Other	3,148,899	0.2%
Changes in Accounting	7,514,709	0.5%
FY 20 Actual Results	$ 1,462,101,819	1.2%