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 8, 2022

Subject: Fiscal Year 2021 Actual-to-Budget Narrative

University of Vermont Health Network Executive Summary

As the Green Mountain Care Board (GMCB) highlighted so well in your recent report to the legislature under Act 159 of 2020, hospital finances in Vermont and nationally are in a very fragile state. Your report appropriately underlines some alarming trends:

- Vermont hospital operating margins have declined precipitously since fiscal year 2015.[1]

- Growth in hospital operating expenses is outstripping growth in operating revenue, which was already evident before the COVID-19 pandemic created major new cost pressures.[2]

- Hospitals are increasingly relying on other operating (non-patient) revenue to remain solvent.[3]

The UVM Health Network and our Vermont hospitals are not immune to these trends. Our operating margins have dropped precipitously in recent years, our expenses have increased dramatically for reasons outside the control of our hospitals or the GMCB and increasingly we are relying on non-operating revenue to cover those expenses. Unlike hospitals in most of the country, however, we live within a budget that is constrained by the GMCB and limits our ability to make mid-year corrections when crises such as we have experienced for the past two years arise.

This submission details our FY 2021 (October 2020-September 2021) actual financial performance for our three Vermont hospitals (UVM Medical Center, Central Vermont Medical Center and Porter Hospital). We paint a fairly grim picture, and we know that the situation has

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[1] GMCB Act 159 2020, Sec. 4 Hospital Sustainabiliy Letter & Report - Submitted 02.01.2022.pdf (vermont.gov) [pg. 13 of the PDF]
[2] GMCB Act 159 2020, Sec. 4 Hospital Sustainabiliy Letter & Report - Submitted 02.01.2022.pdf (vermont.gov) [pg. 14]
[3] GMCB Act 159 2020, Sec. 4 Hospital Sustainabiliy Letter & Report - Submitted 02.01.2022.pdf (vermont.gov) [pg. 17]

only gotten worse in FY 2022 (the current fiscal year) and likely will get even worse before we develop our FY 2023 budget in the spring.

Severe budgetary pressures we are seeing include:

- Operating revenue was below budget at two of our three hospitals (Central Vermont Medical Center and UVM Medical Center) for FY 2021. We continue to be challenged by the ongoing need to meet acute inpatient needs related to the pandemic and associated delayed care, and resulting, necessary scale-backs in outpatient services. The lack of adequate mental health services in our state is resulting in increasing numbers of patients awaiting care and boarding in our Emergency Departments. Additionally, we are experiencing increasing numbers of patients boarding on our acute inpatient floors because we are unable to discharge them due to an insufficient availability of skilled nursing facility (SNF) beds.

- We continue to see steep increases in the costs of traveling staff needed for patient care, which totaled $54M in FY 2021 for our three Vermont hospitals. These costs have only continued to increase in FY 2022; the actual expense for traveling staff for the first three months of the current fiscal year is approximately $30.8M over budget at our three Vermont hospitals. At the end of FY 2020, the average travel nurse rate was $75 per hour, and currently that rate is approximately $200 per hour. Given the regional and national workforce shortage, there is an increased reliance on traveling staff – in the first three months of FY 2022, our Network needed twice as many travelers than in FY 2021. Before the pandemic, travel nurses counted for approximately 5% of our total patient care hours; that figure is now greater than 15%. These factors combine to be a major driver of increased expenses, and are experienced by health care organizations of all types across the entire country.

- We also are experiencing extreme inflationary pressures on non-labor expenses. Outside our organization, labor costs and supply chain disruptions are driving above-normal expense inflation for nearly all vendors with whom we do business. Our expense base is increasing at rates much greater than what was known at the time of our FY 2022 budget submission, and therefore was not factored into the resulting payment rates approved by the GMCB.

Taken together, these inflationary costs seen in our FY 2021 actuals are having an increased impact in FY 2022, were not budgeted or built into the rates approved by the GMCB for FY 2021 and FY 2022, and therefore will be reflected in full (less expense reductions, which we describe below) in our FY 2023 budget submission. We anticipate seeking a significant increase in both commercial rate and NPR in FY 2023 solely to cover these extraordinary inflationary increases. In FY 2021 and to a much smaller extent in FY 2022, losses were partially offset by federal COVID-19 relief funds. In FY 2023, we do not expect any such relief.

We have taken steps, as a Network, to address the expense over-runs we are seeing, relative to our budget. These include:

- A critical review of all hiring. The Network has instituted a workforce prioritization plan to better analyze and prioritize the positions we need to fill across our health system, addressing emerging priorities while aggressively managing costs. This plan will address the shared goals of: reducing our reliance on travelers, focusing our recruiting efforts on front line staff, and limiting the flow of resources to administrative areas, when appropriate. All Network positions, regardless of whether they were previously approved and posted, will go through this review and prioritization process.

- A pause on all non-critical capital expenditures, similar to the process the Network put in place in the early months of the pandemic in FY 2020.

- A critical review of staffing mix, traveler staff, and possible service capacity reductions to achieve targeted reductions in contract labor.

The UVM Health Network will continue to work to minimize our variance from our approved budget. We also will keep the Board apprised of the significant financial impacts of the national and regional workforce crisis and other inflationary pressures during what is proving to be an extraordinarily difficult time to deliver health care.

We share your concern regarding another dynamic highlighted in your recent report: that the cost of health care inflation is borne disproportionately by families and employers who participate in Vermont’s regulated insurance market. We stand ready to work with you to spread the costs of the pandemic and the resulting national and global health care economic costs in a more fair and equitable manner.

Below we provide data relating to the specific performance against budget for each of our three hospitals, in terms of both revenue and expenses.

University of Vermont Medical Center

Operating revenue was below budget at UVM Medical Center for FY 2021, partly due to the cyberattack in the fall of 2020 and the continuing impact of the pandemic. The Fanny Allen operating room closure and movement of inpatient rehab to the UVM Medical Center main campus also contributed to lower than anticipated operating revenues. UVM Medical Center experienced increased expenses in the payment rate and number of needed traveling staff for patient care; the number of travelers increased from a low of 137 in December 2020 to 342 by September 2021.

FY 2021 UVM Medical Center Revenues Compared to Budget

NPR/FPP	Total	% over/under
FY 21 Approved Budget	$ 1,415,656,433	
Utilization	(75,474,637)	-5.3%
Reimbursement/Payer Mix	(48,620,538)	-3.4%
Bad Debt/Free Care	20,645,531	1.5%
Physician Acq/Trans	(4,508,032)	-0.3%
Changes in Accounting	-	0.0%
Changes in DSH	17,475	0.0%
Other (please label)		0.0%
Other (please label)	0.00	0.0%
FY 21 Actual Results	$ 1,307,716,232	-7.6%

Net Patient Revenue (NPR), Fixed Prospective Payments (FPP) & Health Reform Payments
$ Variance: ($107.9M)
% Variance: (7.6%)

The reduction in revenue was due in part to the cyberattack and the continuing impact of the COVID-19 pandemic.

Additionally, the payer mix shifted towards higher Medicare and Medicaid and lower commercial, and the Medicare ACO (OneCare) paid out less than we budgeted, which reduced expected revenues.

The Fanny Allen operating room closure and inpatient rehab moving to main campus due to environmental concerns also contributed to lower than anticipated revenues, due to reduced capacity.

Offsetting the lower revenue was lower than budgeted bad debt and charity care, partly due to lower volumes and the cyberattack systems impact. Our denial write-offs in FY 2021 were very high due to the cyberattack and clean-up from the Epic implementation, specifically timely filing and lack of authorization.

An additional offset was higher pharmaceutical revenues driven by higher utilization and higher cost drugs.

Other Operating Revenue
$ Variance: $115M
% Variance: 61.8%

The majority of the favorable variance was due to COVID-19 related funding, including: HHS Provider Relief Funds $35.6M, State of Vermont Health Care Stabilization funds $32.4M, FEMA funding $9.6M, $1.9M from the State of Vermont for vaccinations, and reimbursement for COVID-19 supplies from the State of Vermont and Dartmouth-Hitchcock of $1.2M.

Outpatient pharmacy operations generated a $17.2M positive variance.

Additionally, institutional service revenue was favorable $10.3M due to an increase in client revenue that was related to COVID-19 testing.

FY 2021 UVM Medical Center Expenses Compared to Budget

Expenses	Amount	% over/under
FY 21 Approved Budget	$ 1,561,665,470	
Salaries	(5,150,486)	-0.3%
Fringe Benefits	(9,339,889)	-0.6%
Physician	7,778,999	0.5%
Contract Staffing	27,795,840	1.8%
Supplies	8,743,900	0.6%
Drugs	3,039,665	0.2%
Facilities	(5,511,423)	-0.4%
Software Related	(2,090,361)	-0.1%
Health Reform Programs		
Depreciation	(1,822,382)	-0.1%
Interest	(1,137,290)	-0.1%
Health Care Provider Tax	(4,877,172)	-0.3%
Purchased Services	(5,635,354)	-0.4%
Other	(1,235,398)	-0.1%
Cost Savings		
FY 21 Actual Results	$ 1,572,224,117	0.7%

Staff Salaries
$ Variance: ($22.6M)
% Variance: (4.3%)

UVM Medical Center experienced a spike in both the rate and number of contracted travelers due to workforce challenges. This contributed $27.8M to the unfavorable variance. The number of travelers increased from a low of 137 in December 2020 to 342 by September 2021.

Hazard pay to employees was reimbursed by the State of Vermont in the amount of $3.6M.

These are partially offset by favorable FTEs related to the cyberattack and the COVID-19 pandemic.

Physician Salaries
$ Variance: ($7.8M)
% Variance: (4.2%)

The UVM Health Network Medical Group finished the year with a positive margin related to funding received for losses incurred in FY 2020 due to the COVID-19 pandemic. That margin gets split 50/50 with the hospital, and the faculty practice portion was paid out as health care service leader and other physician leader appreciation incentives, creating an unfavorable variance of $4.7M. Additionally, we had an increased usage of locum tenens due to workforce shortages. Physician chair incentives also contributed to the unfavorable variance. These are slightly offset by favorable FTEs.

Fringe Benefits
$ Variance: $9.3M
% Variance: 5.3%

The favorability was due to physician and APP vacancies, health net benefit recoveries, lower FICA taxes and annuity match expenses driven by lower FTEs. We also had a favorable adjustment to workers compensation.

All Other Operating Expenses
$ Variance: $10.5M
% Variance: 1.6%

Fanny Allen operating room closures and inpatient rehab, along with COVID-19 related impacts, created favorability in nutrition, utilities and other supplies.

Pushing the Epic Wave 2 go-live out to FY 2022 contributed $4.9M in favorability. Of course, that delay will impact us negatively in FY 2022. Provider tax was favorable $4.9M due to lower NPR, as well as lower professional development of $5.6M related to travel restrictions due to the COVID-19 pandemic.

This includes lower than budgeted software and IT maintenance and facilities maintenance contracts of $5.4M.

Offsetting these positive variances was $11.7M of unfavorable variance in medical surgical supplies related to PPE and testing supplies due to the COVID-19 pandemic, which were partially offset by reimbursements from Dartmouth-Hitchcock and the State of Vermont (see other revenue above).

Net Operating Margin
$ Variance: ($3.5M)
% Variance: (8.8%)

The negative variance was caused by a combination of increased expenses related to COVID-19 and significantly lower volumes during the cyberattack and COVID-19 pandemic. The margin variance would have been much worse had it not been for relief funds and the work we did to mitigate the financial impact of the pandemic.

Non-Operating Revenue
$ Variance: $69.4M
% Variance: 502%

Variance is driven by strong market performance in our investment portfolios.

Total Margin
$ Variance: $65.9M
% Variance: 122.3%

Total margin variance is also driven primarily by strong market performance in our investment portfolios. Recording of our pension termination contributed to the favorability and was slightly offset by an unfavorable operating margin.

Central Vermont Medical Center

Operating revenue was below budget at CVMC for FY 2021 due to the continuing impact of the pandemic. CVMC experienced increased expenses in the payment rate and number of needed traveling staff for patient care. CVMC had 27 traveler FTEs with an associated expense of $6M ($4.4M higher than budget) for an average cost per FTE of $229K, a 29% rate increase from previous years. More than half of these travelers were needed to care for patients at our Woodridge Nursing and Rehabilitation facility.

FY 2021 CVMC Revenues Compared to Budget

NPR/FPP	Total	% over/under
FY 21 Approved Budget	$ 236,081,039	
Utilization	(9,294,510)	-3.9%
Reimbursement/Payer Mix	(5,994,848)	-2.5%
Bad Debt/Free Care	2,158,958	0.9%
Physician Acq/Trans	4,508,032	1.9%
Changes in Accounting		
Changes in DSH	(113,108)	0.0%
Other (please label)		
Other (please label)	0	
FY 21 Actual Results	$ 227,345,562	-3.7%

NPR, FPP & Health Reform Payments
$ Variance: ($8.7M)
% Variance: (3.7%)

The FY 2021 Total NPR + FPP + OneCare Vermont revenue was unfavorable by $8.7M or -3.7% when compared to the FY 2021 budget, primarily due to the continuing impact of COVID-19 on operations. Bad debt and charity care combined were $2.2M 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: $3.9M
% Variance: 22.5%

Other revenue was over budget by $3.9M, primarily due to federal, state, and other miscellaneous COVID-19 funding received and recognized in FY 2021, totaling $2.4M. Other contract pharmacy 340B revenue was also over budget by $1.5M.

FY 2021 CVMC Expenses Compared to Budget

Expenses	Amount	% over/under
FY 21 Approved Budget	$ 252,272,277	
Salaries	1,364,440	0.5%
Fringe Benefits	856,009	0.3%
Physician	1,941,158	0.8%
Contract Staffing	4,391,970	1.7%
Supplies	(1,466,810)	-0.6%
Drugs	(3,764,803)	-1.5%
Facilities	(413,196)	-0.2%
Software Related	(2,320,158)	-0.9%
Health Reform Programs		
Depreciation	(210,792)	-0.1%
Interest	(44,856)	0.0%
Health Care Provider Tax	(462,887)	-0.2%
Purchased Services	1,558,066	0.6%
Other	(2,421,307)	-1.0%
Cost Savings		
FY 21 Actual Results	$ 251,279,114	-0.4%

Staff Salaries
$ Variance: $1.4M
% Variance: 0.5%

Non-MD salaries were over budget by $1.4M or 0.5% in total due to the transfer of three physician practices from UVM Medical Center to Central Vermont Medical Center after the budget was finalized.

Fringe Benefits
$ Variance: $856K
% Variance: 0.3%

Fringe benefits were over budget by $856K, primarily due to increases in pension expenses related to a change in accounting regulations.

Physician Salaries
$ Variance: $1.9M
% Variance: 0.8%

Physician fees were over budget by $1.9M or 0.8% due to the transfer of three physician practices from UVM Medical Center to Central Vermont Medical Center after the budget was finalized.

Contract Staffing
$ Variance: $4.4M
% Variance: 1.7%

CVMC had 27 traveler FTEs with an associated expense of $6M ($4.4M higher than budget) for an average cost per FTE of $229K, a 29% rate increase from previous years. More than half of these travelers were needed to care for patients at our Woodridge Nursing and Rehabilitation facility.

All Other Operating Expenses
$ Variance: ($9.5M)
% Variance: (9.4%)

Supplies and drug expenses were under budget by 0.6% and 1.5% respectively, due to declining volumes related to COVID-19. Software expense was under budget, mostly due to a delay in the Epic implementation from March 2021 to November 2021. Depreciation was under budget by $211K due to delayed capital spending. Health care provider tax was $463K or 0.2% under budget due to less than budgeted NPR. Purchased services were over budget by 0.6% mainly due to an increase in outside lab costs for COVID-19 testing.

Net Operating Margin
$ Variance: ($3.8M)
% Variance: (300.3%)

Operating revenues were $4.8M unfavorable to budget, and operating expenses were $993K favorable, driven by the factors mentioned above.

Non-Operating Revenue
$ Variance: $23M
% Variance: 361.7%

Non-operating revenues were favorable to budget by $23M due to favorable returns and funding status in pension and other investment activity.

Total Margin
$ Variance: $19.4M
% Variance: 252.7%

Operating revenues were $4.8M unfavorable to budget, operating expenses were $993K favorable, and non-operating revenues were favorable by $23.2M.

Porter Hospital

Revenue was above budget at Porter Hospital for FY 2021 due to patient volumes coming back after pandemic restrictions were lifted and the receipt of COVID-19 relief funding. Porter Hospital is designated as a Critical Access Hospital (CAH) and therefore is somewhat insulated from drastic downturns and upturns in patient volume, due to the cost reimbursement methodology for CAHs. Porter experienced increased expenses in the payment rate and number of needed traveling staff for patient care, specifically in the areas of nursing and laboratory technicians.

FY 2021 Porter Revenues Compared to Budget

NPR/FPP	Total	% over/under
FY 21 Approved Budget	$ 89,810,556	
Utilization	2,873,797	3.2%
Reimbursement/Payer Mix	(2,802,520)	-3.1%
Bad Debt/Free Care	1,695,253	1.9%
Physician Acq/Trans		
Changes in Accounting		
Changes in DSH	(56,133)	-0.1%
Other (please label)		
Other (please label)	0	
FY 21 Actual Results	$ 91,520,953	1.9%

NPR, FPP & Health Reform Payments
$ Variance: $1.7M
% Variance: 1.9%

Porter Hospital's net revenue as compared to the FY 2021 approved NPR was favorable by 1.9%. This increase was driven in part by increased activity in Imaging (Radiology, CT Scans, MRI) after COVID-19 restrictions were lifted.

Other Operating Revenue
$ Variance: $846K
% Variance: 12.3%

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.

FY 2021 Porter Expenses Compared to Budget

Expenses	Amount	% over/under
FY 21 Approved Budget	$ 92,343,473	
Salaries	(496,466)	-0.5%
Fringe Benefits	(2,239,298)	-2.4%
Physician	79,467	0.1%
Contract Staffing	1,875,935	2.0%
Supplies	802,817	0.9%
Drugs	406,187	0.4%
Facilities	(65,761)	-0.1%
Software Related	(26,001)	0.0%
Health Reform Programs		
Depreciation	(240,153)	-0.3%
Interest	3,092	0.0%
Health Care Provider Tax	257,025	0.3%
Purchased Services	832,451	0.9%
Other	(1,928,098)	-2.1%
Cost Savings		
FY 21 Actual Results	$ 91,604,670	-0.8%

Salaries & Fringe Benefits
$ Variance: ($780K)
% Variance: (1.4%)

The favorable salary expense variance was due in part to staffing challenges during the year, which were offset by continued reliance on temporary labor, specifically in the areas of nursing and laboratory technicians. A pension adjustment at year-end to true-up to the actuarial report $522K contributed towards savings in fringe benefits, but the bulk of the savings was due to inclusion in the Network insurance plans $1.6M.

Depreciation
$ Variance: ($240K)
% Variance: (7.8%)

Depreciation expense was favorable to budget by 7.8%, which is due to savings from the timing of capital expenditures.

All Other Operating Expenses
$ Variance: $74K
% Variance: 0.2%

All other expenses reflected an unfavorable result. Porter experienced significant savings due to its participation in Network-provided services: It saved in insurance expense ($244K) due to a partial premium “holiday” extended by the Network’s captive insurance company, shared Network savings ($203K) and other expenses ($770K). None of these savings would have been achieved, or achieved to the same degree, absent Porter's participation in the UVM Health Network. Nonetheless, those savings were offset by overages in contract staffing $1.8M, medical supplies and pharmaceuticals $1.3M, and provider taxes $257K.

Net Operating Margin
$ Variance: $3.5M
% Variance: 80.1%

Operating margin performance was favorable to budgeted expectations. The positive performance from an operating perspective was mainly driven by sustained volumes, expense management and the state and federal funding available due to the impact of the COVID-19 pandemic.

Non-Operating Revenue
$ Variance: $2.7M
% Variance: 424%

Non-operating revenue was favorable to budget and was primarily due to above budget investment income.

Total Margin
$ Variance: $6.2M
% Variance: 124%

Total margin exceeded budgeted expectations due to aforementioned factors.