



Gifford Medical Center

44 South Main Street, P.O. Box 2000 • Randolph, Vermont 05060
802-728-7000 • fax 802-728-4245
www.giffordhealthcare.org

February 9, 2024

Ms. Flora Pagan
Green Mountain Care Board
144 State Street
Montpelier, VT 05602

Dear Ms. Pagan,

The following narrative summarizes Gifford Medical Center’s actual financial performance for the fiscal year ended September 30, 2023. Additionally, enclosed you will find the audited financial statements for Gifford Health Care and its subsidiaries, which includes Gifford Medical Center.

Overview

Fiscal year 2023 continued to pose operational challenges for Gifford, consistent with those experienced throughout the health care industry. Workforce pressures experienced during fiscal year 2022 continued throughout fiscal year 2023 and continue to present significant operational and financial challenges in current fiscal year 2024.

Gifford Medical Center’s need to utilize traveling staff continued to increase during the year, primarily in nursing and ancillary departments. This has caused added pressure to our operating margin. We have continued with our wage increases to recruit new staff and retain current staff.

While these actions provide opportunity for future improvement, workforce challenges and inflationary pressures continue to impact our financial performance leading into fiscal year 2024.

Gifford Medical Center has experienced a loss of \$1.9M loss through the first quarter of fiscal year 2024, and our consolidated organizational financial performance is also reflecting a significant operating loss:

	GMC		GHC Consolidated	
	FYE 2023	Q1 FY24	FYE 2023	Q1 FY24
Total Revenue	56,895,993	13,443,139	76,924,117	18,628,818
Total Expenses	61,629,923	15,319,408	91,469,867	22,050,675
Operating Margin	(4,733,930)	(1,876,269)	(14,545,750)	(3,421,857)
Operating Margin %	-8.3%	-14.0%	-18.9%	-18.4%

Gifford’s leadership team is engaged in margin improvement initiatives in each of our three corporations; acknowledging the likelihood of meeting our budgeted operating margin planned for fiscal year 2024 will be a challenge. The majority of the operating loss is due to our EMR implementation, which required Hospital and Clinical staff to reduce census before and during our October 9th Go-Live.

Net Patient Revenue & FPP

Gifford Medical Center’s Net Patient Revenue, as compared to the approved FY 2023 budget, was unfavorable by 5.5%. Outpatient and Clinic volume was favorable as compared to budgeted expectations specifically in the areas of Infusion Service, Laboratory, and ED in the Outpatient Service areas, and Hospitalists, ED, and Podiatry in the Clinics. Aside from the favorable utilization impact, several other factors contributed to the net revenue variance:

- Payer Mix/Reimbursement – shifts in payer mix as a result of the reclassification of our contractual adjustments between payers, resulted in lower than budgeted net revenue for the hospital. Increased Denial and Administrative Adjustments activity caused by inefficiencies in our aging EMR system also had a significant impact on our net Patient Revenue.
- Fixed Prospective Payments – At the time the budget was created for FY 2023, we were using an attribution of 3,428 lives to set our budgeted fixed payment. For FY 2023, our actual attributed lives exceeded budgeted estimates by 207; therefore, increasing the amount of fixed payments received.
- Changes in DSH – DSH was budgeted at \$357K based on the lower DSH payment received in Fiscal Year 2022. After budgeting Fiscal Year 2023, we received notice that our DSH payment would be increased to \$451K.
- Cost Report Settlement – our Fiscal Year 2022 Cost Report Settlement ended up lower than our FY2022 Interim Cost Report Settlement Estimate, resulting in a Fiscal Year 2023 adjustment of \$781K.

NPR/FPP	Total	% over/under
FY 23 Approved Budget	\$ 58,010,648	
Utilization	4,016,479	6.9%
Reimbursement/Payer Mix	(7,044,045)	-12.1%
Bad Debt/Free Care	(147,586)	-0.3%
Physician Acq/Trans	-	0.0%
Changes in Accounting	-	0.0%
Changes in DSH	93,950	0.2%
Net FPP & Reserves	663,519	1.1%
Cost Report Settlement	(781,039)	-1.3%
FY 23 Actual Results	\$ 54,811,926	-5.5%

Other Operating Revenue

Other operating revenue experienced an increase over budgeted expectations. The increase in income is primarily attributed to the utilization of donated Specific Purpose Funds. This income is offset by other non-salary expense incurred by the hospital.

Operating Expenses

Total operating expenses exceeded budgeted expectations by 16.8%. Noteworthy variances exceeding +/- 1.0% include the following:

- *Unfavorable Variances*
 - Salaries – unfavorable to budget by 2.4%. This is due to the previously mentioned wage increases in Fiscal Year 2022 & 2023. This was done in an effort to recruit and retain staff.
 - Contract Staffing – unfavorable to budget by 6.1%, primarily due to the reliance on temporary nursing and ancillary technician labor.
 - Facilities – unfavorable to budget by 3.4%, primarily driven by the increased maintenance costs associated with the current age of our facilities, coupled with a change in accounting related to the renting of Gifford Medical Center owned buildings to the other divisions. The increase here is offset by rental income from the other divisions.
 - Other Expenses & Purchased Services – unfavorable to budget by 1.8%, which was primarily attributed to the aforementioned rental income and expense change.
 - IT Related – unfavorable to budget by 3.3%, primarily driven by the need to pay for both our Legacy EMR and new EMR while we worked towards implementation.

- *Favorable Variances*
 - Physician Contracts – favorable to budget by 2.4%, the decrease in expense is primarily related to hiring two new surgeons, which has reduced the utilization of Locums.

Expenses	Amount	% over/under
FY 23 Approved Budget	\$ 52,765,594	
Salaries	1,284,160	2.4%
Physician Contracts	(1,249,851)	-2.4%
Fringe Benefits	(379,023)	-0.7%
Contract Staffing	3,228,674	6.1%
Supplies	460,432	0.9%
Drugs	337,327	0.6%
Facilities	1,770,749	3.4%
IT Related	1,743,499	3.3%
Health Reform Programs	95,563	0.2%
Depreciation	(190,249)	-0.4%
Interest	(18,487)	0.0%
Health Care Provider Tax	230,990	0.4%
Other (Management Fees)	134,617	0.3%
Other (Other Purchased Services)	930,562	1.8%
Other (Lease)	485,368	0.9%
FY 23 Actual Results	\$ 61,629,923	16.8%

Non-Operating Revenue

Non-Operating Revenue fell above budgeted expectations as a result of favorable market activity.

Debt Covenant Performance

As with most health care organizations, Gifford is experiencing significant challenges with respect to meeting its debt covenant obligations. Gifford Medical Center's debt covenants are evaluated and reported on a consolidated basis and require a debt service ratio at or above 1.4 and days cash on hand at or above 75 days.

We began FY 2023 with a debt service ratio of 2.0 and days cash of 138; unfortunately, at the close of FY 2023, both of these key covenants had been reduced to 0.0 and 101.1 respectively. Due to failing the Debt Service Coverage Ratios, Gifford was required to apply for a waiver from our lenders. As of January 26th, 2024, Gifford has amicably resolved the Covenant default via a waiver, and we are working with our lenders towards compliance, set for the end of Fiscal Year 2024.

As always, we are available to answer all questions and inquires at your convenience.

Sincerely,

Stephen G. Conti

Stephen G. Conti
Controller

CC: Mr. Owen Foster, J.D., Chair – Green Mountain Care Board
Dan Bennett, CEO – Gifford Health Care