



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 15, 2023

Ms. Sarah Lindberg
Green Mountain Care Board
144 State Street
Montpelier, VT 05602

Dear Ms. Lindberg,

The following narrative summarizes Gifford Medical Center’s actual financial performance for the fiscal year ended September 30, 2022. Additionally, enclosed you will find the audited financial statements for Gifford Health Care and its subsidiaries, which includes Gifford Medical Center.

Overview

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

Gifford Medical Center’s need to utilize traveling staff increased significantly during the year primarily, in nursing and ancillary departments. We undertook a number of initiatives to combat these trends. In May of 2022, we enacted a new market-based compensation program, which resulted in wage increases throughout our organization (yielding an expense in excess of \$1M). This was nearly triple the amount budgeted for wage increases. We instituted a \$15 per hour minimum wage for Gifford employees, enacted a new nursing residency program, and expanded our collaborations with area educational institutions to provide a pathway to obtain a career in health care.

While these actions provide opportunity for future improvement, workforce challenges and inflationary pressures continue to impact our financial performance leading into fiscal year 2023.

Although Gifford Medical Center has experienced a modest \$100K gain through the first quarter of fiscal year 2023, our consolidated organizational financial performance is reflecting a significant operating loss:

	GMC		GHC Consolidated	
	FYE 2022	Q1 FY 23	FYE 2022	Q1 FY 23
Total Revenue	62,855,580	15,264,736	82,323,067	20,379,908
Total Expenses	58,474,914	15,164,373	86,010,929	22,266,867
Operating Margin	4,380,666	100,363	(3,687,862)	(1,886,959)
Operating Margin %	7.0%	0.7%	-4.5%	-9.3%

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 2023 will be a challenge.

Net Patient Revenue & FPP

Gifford Medical Center’s Net Patient Revenue as compared to the approved FY 2022 budget was favorable by 8.2%. Outpatient volume was favorable as compared to budgeted expectations specifically in the areas of imaging and emergency room utilization. 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 and corporations (as outlined in our FY 2023 Budget narrative) resulted in higher than budgeted revenue for the hospital.
- Bad Debt – bad debt is reflecting a favorable variance to budget as a result of revenue cycle efforts to reduce bad debt write offs.
- Fixed Prospective Payments – At the time the budget was created for FY 2022, we were using an attribution of 3,130 lives to set our budgeted fixed payment. For FY 2022, our actual attributed lives exceeded budgeted estimates by 511; therefore, increasing the amount of fixed payments received.
- Cost Report Settlement – our interim fiscal year 2022 cost report estimates yielded a favorable net result of \$1.38M.

NPR/FPP	Total	% over/under
FY 22 Approved Budget	\$ 54,224,079	
Utilization	\$ 617,267	1.1%
Reimbursement/Payer Mix	\$ 746,526	1.4%
Bad Debt/Free Care	\$ 844,793	1.6%
Physician Acq/Trans	\$ -	0.0%
Changes in Accounting	\$ -	0.0%
Changes in DSH	\$ (216,171)	-0.4%
FPP	\$ 1,088,401	2.0%
Cost Report Settlement	\$ 1,376,041	2.5%
FY 22 Actual Results	\$ 58,680,936	8.2%

Other Operating Revenue

Other operating revenue experienced an increase over budgeted expectations. The increase in income is primarily attributed to the receipt of unanticipated COVID-19 stimulus funding that was utilized to offset a portion of the increased temporary labor expense. Additionally, rental income increased as a result of accounting changes that were implemented in fiscal year 2022, whereby the hospital now recognizes the rental income remunerated by the other corporations under the Gifford Health Care umbrella. The income is offset by both the other non-salary and depreciation expense incurred by the hospital.

Operating Expenses

Total operating expenses exceeded budgeted expectations by 10.0%. Noteworthy variances exceeding +/- 1.0% include the following:

- *Unfavorable Variances*
 - Contract Staffing – unfavorable to budget by 4.5%, primarily due to the reliance on temporary nursing and ancillary technician labor. Additionally, locum tenens were needed to sustain our general surgery program due to vacancies during the first half of the fiscal year.
 - Other Expenses & Purchased Services – unfavorable to budget by 4.0%, which was primarily attributed to the aforementioned rental income and expense change.
 - Management Contracts – At the beginning of FY 2022, GMC adopted a management contract methodology. Management Contracts distinctly allow for the identification of administrative and overhead expenses for individual divisions under a parent corporation. Historically, for GMC, these expenses have been imbedded in its individual expense lines, inclusive of salaries. For FY 2022 actual reporting, we have identified these management contract expenses in the “Other Services” line. These expenses are primarily offset by the savings reflected in the salaries and benefit categories.

- *Favorable Variances*
 - Salaries – favorable to budget by 8.8%, the decrease in expense is primarily related to the aforementioned change in management contract methodology.
 - Fringe Benefits – favorable to budget by 2.6%, the decrease in expense is primarily related to the aforementioned change in management contract methodology.

Expenses	Amount	% over/under
FY 22 Approved Budget	\$ 53,172,793	
Salaries	\$ (4,677,137)	-8.8%
Fringe Benefits	\$ (1,373,775)	-2.6%
Physician Contracts	\$ (200,018)	-0.4%
Contract Staffing	\$ 2,396,081	4.5%
Supplies	\$ 276,288	0.5%
Drugs	\$ 49,429	0.1%
Facilities	\$ (385,432)	-0.7%
IT Related	\$ -	0.0%
Health Reform Programs	\$ (32,023)	-0.1%
Depreciation	\$ (287,572)	-0.5%
Interest	\$ 45,653	0.1%
Health Care Provider Tax	\$ 427,866	0.8%
Other Expenses & Purchased Services	\$ 2,108,603	4.0%
Management Contracts	\$ 6,954,159	13.1%
Cost Savings	\$ -	0.0%
FY 22 Actual Results	\$ 58,474,915	10.0%

Non-Operating Revenue

Non-Operating Revenue fell far below budgeted expectations as a result of unfavorable market activity.

Debt Covenant Performance

As 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 2022 with a debt service ratio of 4.2 and days cash of 230; unfortunately, at the close of FY 2022, both of these key covenants had been reduced to 2.0 and 138 respectively. Gifford's debt covenants continue to erode through the first quarter of FY 2023 (DSCR = 1.4 and DCOH = 122), requiring substantial draws on our reserves in order to preserve our covenant performance above the thresholds stipulated in our bond agreement. At this time, there is very little left in reserves to counteract any further decline in our covenant performance and we continue to communicate on a regular basis with our lending institutions in an effort to be transparent should future technical default occur.

Audit Footnote Related to COVID-19 Relief Funding

Gifford Medical Center has chosen to follow the conditional contribution model for the treatment of the HHS Provider Relief funds. In FY 2022, any amounts of federal funding received was recognized on the statement of operations. It was determined, by management, that GMC substantially met the conditions outlined in the most recent guidance issued by HHS.

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

Sincerely,

J. Bertrand

Jennifer Bertrand
Chief Financial Officer

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