



Choosing Health

NORTHEASTERN VERMONT REGIONAL HOSPITAL

DELIVERED ELECTRONICALLY

June 11, 2024

Owen Foster, Chair
Green Mountain Care Board
144 State Street
Montpelier, VT 05602

RE: NVRH FY23 BUDGET VIOLATION

Dear Chair Foster:

I received your June 5, 2024 letter regarding NVRH’s FY 2023 budget violation. The NVRH finance team has prepared responses to the requests for additional information specified in your letter (presented in bold and followed by our non-bolded response.)

- All internal communications and presentations (internal and/or to hospital boards of directors) discussing NVRH’s performance vis-à-vis its FY2023 budget, including with respect to NPR/FPP, utilization, and operating expenses;**

NVRH Response: The NVRH board of trustees receives a monthly report on NPR/FPP, utilization and operating expenses variances to budget. Attachment I, is an example of this monthly report.

- Contemporaneous documents and a description of the drivers of the NPR/FPP variance;**

NVRH Response: Net patient revenue exceeded budget by \$2.1 million. The Statement of Revenues and Expenses shown below summarizes the NPR variance. Primary drivers of the favorable NPR variances were:

Gross Patient Revenue: Gross Revenue exceeded budget by \$11.3 million. A significant contributing factor was the post-COVID period when patients began coming back for services they put off during the pandemic. Page 10 of our Attachment I shows gross revenue variances by department. While several departments reported higher than budgeted revenue, the more significant variances occurred in the Operating Room, Emergency Department and Pain Management clinic. Actual vs budget volume for these departments is shown below. The higher volumes drove the gross revenue variance for these departments.

Department	FY 23 Actual	FY 23 Budget	Variance
Operating Room	203,788	200,000	3,788 (2%)
• OR Major joint cases	266	220	46 (21%)
Emergency Department	14,188	12,500	1,688 (13%)
Pain Clinic	2,790	925	1,865 (300%)

Contractual Allowances: Contractual allowances exceeded budget. The primary drivers of the variance were higher gross revenue and eliminating the coding backlog for FY2022 services. Charge entry, billing and contractual allowance calculations, can’t be done until coding completed. The majority of accounts in the backlog were Medicaid ACO patient accounts. NVRH receives fixed prospective payments for ACO accounts. Therefore, 100% of gross charges for FY 2022 services become contractual allowances in FY 2023.

Uncompensated Care (Bad debts, Free Care): Uncompensated care deductions were \$249,000 lower than

budget. This variance did not result from any changes to NVRH's write off or patient assistance policies.

NORTHEASTERN VERMONT REGIONAL HOSPITAL				
STATEMENT OF REVENUES AND EXPENSES-Audited				
September 30, 2023				
		ACTUAL	BUDGET	VARIANCE
		YTD	YTD	YTD
OPERATING REVENUE				
INPATIENT REVENUE		47,538,464	48,188,900	(650,436)
OUTPATIENT REVENUE		172,234,996	161,964,700	10,270,296
PHYSICIAN REVENUE		29,709,701	27,988,500	1,721,201
TOTAL REVENUE		249,483,161	238,142,100	11,341,061
CONTRACTUALS		132,010,123	122,495,953	9,514,170
DSH REVENUE		(956,589)	(926,400)	(30,189)
PROVISION FOR BAD DEBT		4,404,638	3,992,900	411,738
FREE CARE		1,861,033	2,521,800	(660,767)
DEDUCTIONS FROM REVENUE		137,319,205	128,084,253	9,234,952
NET PATIENT REVENUE		112,163,956	110,057,847	2,106,109

3. **Contemporaneous documents and a description of the drivers of operating expense variance;**

NVRH Response: Total operating expenses were unfavorable to budget by \$5.1 million. The table shown below, which was taken from the monthly report to board of trustees, summarizes the operating expense variances. Primary drivers of the unfavorable budget variances, shown in parentheses, were:

Staff Salaries: Variance resulted from providing annual increase to employees sooner in fiscal year than budgeted and from unbudgeted increases to recruit and retain staff

Traveler Expense: Higher than expected cost to fill vacant staff positions with temporary agency staff.

Locum Expense: Higher than expected cost to fill vacant physician positions with temporary agency staff.

Physician Recruitment: Successful recruitment of physicians to fill unexpected vacancies

Management fees/Purchased Services: Several factors contributed to this variance:

- Purchased coding services in HIM department
- Legal fees exceeded budget
- Purchased CT/Ultrasound services exceeded budget
- Grant related expenses exceeded budget (Offset by higher grant revenue)

NOTE: Drug expense variance shown below was due to budget classification error not higher costs

NORTHEASTERN VERMONT REGIONAL HOSPITAL				
STATEMENT OF REVENUES AND EXPENSES-Audited				
September 30, 2023				
		ACTUAL	BUDGET	VARIANCE
		YTD	YTD	YTD
OPERATING EXPENSES				
STAFF SALARIES		54,954,781	53,989,995	(964,786)
TRAVELER EXPENSE		3,914,921	2,414,600	(1,500,321)
LOCUM EXPENSE		708,819	10,000	(698,819)
FRINGE BENEFITS		16,840,769	17,165,800	325,031
PROFESSIONAL FEES		3,056,968	3,137,346	80,378
PHYSICIAN RECRUITMENT		132,876	40,000	(92,876)
MANAGEMENT FEES		8,350,900	7,129,637	(1,221,263)
UTILITY EXPENSE		1,372,587	1,467,804	95,217
MEDICAL SUPPLIES		4,835,274	4,987,808	152,534
DRUG EXPENSE		5,179,307	4,523,338	(655,969)
IMPLANTS		2,379,593	1,823,005	(556,588)
NON MEDICAL SUPPLIES		1,796,478	1,949,683	153,205
INTEREST EXPENSE		234,087	26,000	(208,087)
OTHER DIRECT EXPENSES		11,052,376	11,461,363	408,987
INSURANCE		1,536,623	1,473,232	(63,391)
DEPRECIATION & AMORTIZATION		4,438,999	4,084,456	(354,543)
BOND EXPENSE		181,211	159,700	(21,511)
TOTAL OPERATING EXPENSES		120,966,569	115,843,767	(5,122,802)

4. **A description of FY23 service lines that exceeded budgeted utilization together with backup**

documentation and additional costs, if any, specifically tied to that additional utilization.

NVRH Response: Significant utilization variances from budget occurred in three departments: Operating room, Emergency department and Pain Management clinic. Major operating room cases exceeded budget, as shown in our response to item 2. Above. Higher volume of major joint cases resulted in implant expense exceeding budget by \$556,588

5. Year-to-date (YTD) results, as of the date of this letter:

- a. **NPR/FPP YTD variance, including comparison to prior year;**
- b. **Operating margin variance, including comparison to prior year; and**
- c. **Operating expense variance, including comparison to prior year**

NVRH Response: The table below provides year-to-date variances and comparisons to prior year for NPR/FPP, operating expenses and operating margin, of April 30th.

NORTHEASTERN VERMONT REGIONAL HOSPITAL						
STATEMENT OF REVENUES AND EXPENSES						
WITH BUDGET COMPARISON						
April 2024 w/Comparison to April 2023						
	ACTUAL	BUDGET	VARIANCE	ACTUAL	BUDGET	VARIANCE
	YTD	YTD	YTD	YTD	YTD	YTD
OPERATING REVENUE	4/30/2024	4/30/2024	4/30/2024	4/30/2023	4/30/2023	4/30/2023
INPATIENT REVENUE	28,133,243	30,491,079	(2,357,836)	27,523,026	27,989,168	(466,142)
OUTPATIENT REVENUE	106,663,188	109,197,749	(2,534,561)	97,900,823	94,072,648	3,828,175
PHYSICIAN REVENUE	16,567,258	17,229,082	(661,824)	16,540,897	16,256,333	284,564
TOTAL REVENUE	151,363,689	156,917,910	(5,554,221)	141,964,746	138,318,149	3,646,597
CONTRACTUALS	80,142,525	83,530,713	(3,388,188)	75,213,136	72,584,706	2,628,430
DSH REVENUE	(573,941)	(540,400)	(33,541)	(558,010)	(1,974,446)	1,416,436
PROVISION FOR BAD DEBT	2,257,027	2,817,002	(559,975)	2,522,272	2,329,192	193,080
FREE CARE	1,126,402	1,085,188	41,214	917,083	1,464,717	(547,634)
DEDUCTIONS FROM REVENUE	82,952,013	86,892,503	(3,940,490)	78,094,481	74,404,169	3,690,312
NET PATIENT REVENUE	68,411,676	70,025,407	(1,613,731)	63,870,265	63,913,980	(43,715)
OTHER OPERATING REVENUE	2,524,858	2,413,176	111,682	2,388,293	2,285,994	102,299
GRANT INCOME	703,392	615,435	87,957	768,713	0	768,713
340B REVENUE	747,667	183,750	563,917	208,508	1,219,726	(1,011,218)
UNRESTRICTED INTEREST INCOME	144,507	118,767	25,740	115,778	145,206	(29,428)
TOTAL OTHER OPERATING REVENUE	4,120,424	3,331,128	789,296	3,481,292	3,650,926	(169,634)
TOTAL OPERATING REVENUE	72,532,100	73,356,535	(824,435)	67,351,557	67,564,906	(213,349)
OPERATING EXPENSES						
STAFF SALARIES	34,148,532	33,730,256	(418,276)	31,498,160	30,914,667	(583,493)
TRAVELER EXPENSE	1,425,322	987,345	(437,977)	2,058,739	1,408,516	(650,223)
LOCUM EXPENSE	696,932	875	(696,057)	304,885	5,833	(299,052)
FRINGE BENEFITS	11,497,658	10,175,792	(1,321,866)	9,838,638	10,013,383	174,745
PROFESSIONAL FEES	1,814,243	1,963,967	149,724	1,763,996	1,808,818	44,822
PHYSICIAN RECRUITMENT	43,916	0	(43,916)	16,709	23,333	6,624
MANAGEMENT FEES	5,068,365	4,873,292	(195,073)	4,384,179	4,148,622	(235,557)
UTILITY EXPENSE	725,377	818,494	93,117	799,117	846,126	47,009
MEDICAL SUPPLIES	2,736,504	3,368,260	631,756	2,760,741	2,888,904	128,163
DRUG EXPENSE	2,730,338	2,860,961	130,623	2,821,726	2,727,501	(94,225)
IMPLANTS	1,789,522	1,405,834	(383,688)	1,344,010	1,045,085	(298,925)
NON MEDICAL SUPPLIES	1,001,005	1,128,441	127,436	909,548	1,132,612	223,064
INTEREST EXPENSE	49,121	80,124	31,003	97,951	15,167	(82,784)
OTHER DIRECT EXPENSES	6,589,604	6,683,155	93,551	6,521,258	6,682,330	161,072
INSURANCE	1,082,289	1,065,886	(16,403)	936,352	859,385	(76,967)
DEPRECIATION & AMORTIZATION	2,932,778	3,022,394	89,616	2,272,176	2,382,601	110,425
BOND EXPENSE	97,730	84,408	(13,322)	107,520	93,158	(14,362)
TOTAL OPERATING EXPENSES	74,429,236	72,249,484	(2,179,752)	68,435,705	66,996,041	(1,439,664)
OPERATING MARGIN	(1,897,136)	1,107,051	(3,004,187)	(1,084,148)	568,865	(1,653,013)

6. FY24 forecast for NPR/FPP, operating expenses, and operating margin, and a description of any variance from budgeted

NVRH Response: The projected statement of operations, with comparisons to budget, is shown below. Here is a description of reasons for significant variances from budget that appear in the statement of operations:

Other Operating Revenue: 340B revenue will be favorable to budget. NVRH made several strategic changes to our 340B policies to align our program with pharmaceutical company’s requirements to maximize capture of eligible 340B drugs

Staff Salaries: Annual increase was given to employees earlier than the budgeted timeframe and market adjustments necessary to recruit and retain employees

Traveler and Locum Expense: There is an ongoing need to staff vacant positions with temporary agency staff

Fringe Benefits: Variance is due to higher than expected costs of employee health insurance coverage

Management Fees/Purchased Services: Variance is in the areas of legal fees; CT/Ultrasound purchased services, transportation of patients to appropriated facilities and purchased of outside coding support staff.

Medical Supplies: Significant improvements made in management and procurement of supplies, especially operating room related supplies

Implants: Higher volume of major orthopedic procedures

NVRH			
FY 2025 BUDGET			
STATEMENT OF OPERATIONS			
REVENUES AND EXPENSES	FY 2024 Projected	FY 2024 Budget	FY 2024 Variance
OPERATING REVENUE			
NET PATIENT REVENUE	120,203,900	120,323,189	(119,289)
OTHER OPERATING REVENUE	4,507,705	4,136,871	370,834
GRANT INCOME	1,175,946	1,092,025	83,921
340B REVENUE	1,255,980	315,000	940,980
UNRESTRICTED INTEREST INCOME	210,000	203,600	6,400
TOTAL OTHER OPERATING REVENUE	7,149,630	5,747,496	1,402,134
TOTAL OPERATING REVENUE	127,353,531	126,070,685	1,282,846
OPERATING EXPENSES			
STAFF SALARIES	59,379,000	58,814,748	(564,252)
TRAVELER EXPENSE	2,523,880	1,692,590	(831,290)
LOCUM EXPENSE	1,250,000	1,500	(1,248,500)
FRINGE BENEFITS	19,250,000	17,444,212	(1,805,788)
PROFESSIONAL FEES	3,121,063	3,366,800	245,737
PHYSICIAN RECRUITMENT	75,000	-	(75,000)
MANAGEMENT FEES	8,911,088	8,354,205	(556,883)
UTILITY EXPENSE	1,228,052	1,403,132	175,080
MEDICAL SUPPLIES	4,700,000	5,774,140	1,074,140
DRUG EXPENSE	4,733,136	4,904,502	171,366
IMPLANTS	2,933,980	2,410,000	(523,980)
NON MEDICAL SUPPLIES	1,800,000	1,934,461	134,461
INTEREST EXPENSE	85,000	137,355	52,355
OTHER DIRECT EXPENSES	11,291,779	11,456,812	165,033
INSURANCE	1,846,029	1,827,233	(18,796)
DEPRECIATION & AMORTIZATION	5,000,000	5,181,247	181,247
BOND EXPENSE	170,000	144,700	(25,300)
TOTAL OPERATING EXPENSES	128,298,006	124,847,637	(3,450,369)
OPERATING MARGIN	(944,475)	1,223,048	(2,167,523)

In addition to providing the above responses, we will also be prepared to discuss the FY 2023 budget violation during our FY 2025 budget hearing. In the meantime, I, and the NVRH finance team, are available to answer questions regarding our response to your June 5, 2024 letter.

Sincerely,

Andre Bissonnette, CFO

cc: Michael Barber, GMCB
Alena Berube, GMCB
Mark Hengstler, GMCB
Matthew Sutter, GMCB
Health Care Advocate Policy Team
Green Mountain Care Board Members
Shawn Tester, NVRH
Bob Hersey, NVRH
Leslie Walker, NVRH