

January 31, 2023

Sarah Lindberg, Director of Health System Finances
Green Mountain Care Board
144 State Street
Montpelier, VT 05620

Dear Sarah,

The following narrative highlights the operating performance of Rutland Regional Medical Center for the fiscal year ended September 30, 2022.

Utilization

Fiscal year 2022 actual Gross Patient Service Revenue (GPSR) was over budget by \$59.6 million or 9.3%.

Routine (bed charges) revenue was over budget by \$852,000 or .94%. Patient days were over by 245 and we experienced an average length of stay that was slightly above budget.

We continue to be challenged with patients in the hospital who do not require hospital level care. We refer to this subset of patients as “Level 2”. In 2022 our Level 2 days were 2,408 days, 7.4% of total patient days.

Gross ancillary service revenue was over budget by \$58.7 million or 10%. Services of note include:

- Pharmacy was over by \$23.9M. This was the result of several unbudgeted new oncology medications, as well as a COVID infusion therapy medication.
- The Emergency Room was over budget \$9.9M. In fiscal year 2022 the Emergency Room saw an average of 91 patients per day. This is up from fiscal year 2021 average of 80 patients per day. While we have an average of 91 patients in any given week, we can see our patient volume flex substantially. We can treat 65 patients on one day and then 120 patients the next.
- Emergency room utilization drives imaging services. Consistent with the high volume in the Emergency Room, our Diagnostic Imaging revenue was \$8.9 million over budget, driven by both CT and MRI.

- Laboratory and Respiratory revenue were over budget \$7M. The main driver of this increase was related to COVID infections, seen both in our ED and inpatient services.
- Our Provider Services were over budget by \$7.1M. In July of 2022 we added Anesthesia Physician Services as employed physicians rather than locums which has caused some unanticipated revenue due to refinement of coding. We are also seeing strong patient demand across of our specialty clinics.

Net Patient Revenue

Fiscal 2022 net revenue was over budget \$35 million. While most of the net revenue increase is driven by the steep uptick in volume, we did realize an increase in reimbursement. On average we collected 1.4% more than we had anticipated. We budgeted a net to gross of 42.3% but ended the year with a net to gross rate of 43.7%.

There are two drivers of our performance. The first relates to the one-time funding that was provided by the State and distributed through the Disproportionate Share Program. This one-time funding provided \$3.5 million in unanticipated Medicaid reimbursement. The second relates to our performance in OneCare. Overall RRMC had anticipated a slight loss in the program, but we ended with a minimal gain of just under \$400,000, a difference of \$1.6 million.

Other Operating Revenue

For the year, Other Operating Revenue was over budget \$6 million or 28.8%.

In Fiscal 2022, RRMC recognized \$7.5 million in Federal Relief Funds as other During Fiscal 2022. Offsetting the Federal Relief Funds, our 340B program generated \$10.3 million in other operation revenue, \$2.1 million less than budgeted expectations. Numerous manufacturers have begun to exempt contract pharmacies from participating in the 340B program for certain drugs.

Operating Expenses

FY 2022 Operating Expenses were over budget \$53.6 million or 18.4%

Physician salary including locums: Over budget \$5.4 million or 15.8%

- Compensation related to volume \$ 2,500,000
- Locums, call coverage, Retention \$ 2,900,000

Salary Other: Over budget \$17.6 million or 18.4%

- Retention Payment \$ 7,500,000

- Differentials/Incentive Plans \$ 6,200,000
- Hiring Agreements \$ 2,400,000
- Minimum Wage and Cost of Living \$ 1,800,000

Fringe Benefits: Over budget by \$3.2 million or 9.9%.

- Payroll Taxes (FICA, Pension etc.) \$ 2,000,000
- Health Insurance \$ 1,600,000

Contract Staffing: Over budget by \$14.2 million or 381%.

All Other Operating Expense Variances:

- Pharmaceuticals \$ 5,700,000
- Supplies \$ 4,800,000
- Health Care Provider Tax \$ 2,300,000

Operating Margin

Even though utilization and revenue were significantly over budget it was not enough to overcome the pressures from workforce, inflation and physician shortages. Over the course of the year RRMC made a deliberate decision to keep access to care open. We did not close beds, reduce clinic hours, shut down any services nor delay testing services. The cost of keep services open resulted in an operating margin loss of -4.1%. We projected that 2022 was going to be a challenging year and only budgeted for breakeven performance.

Non-Operating Revenue

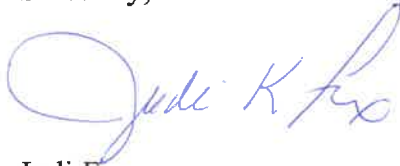
For many years leading up to 2022 investment performance subsidized low operating margin performance and allowed RRMC to continue to invest in services, infrastructure and workforce. Unfortunately, in 2022 this was not the case, instead of mitigating the operating loss investment performance added to our overall margin loss. Total dividends and market value adjustments resulted in losses of \$28.7 million. This was under budget by \$35.1 million.

Bond Covenants

The operating loss and the investment loss resulted in RRMC's days of cash falling sharply from 280 days when we began the year to 163 days to end the year. This is over a 40% reduction in liquidity, due to the impacts of inflation and the operating and investment loss. While RRMC still met the bond covenant for liquidity we did not meet the debt service coverage bond covenant. RRMC has over \$46 million in debt that was at risk with both the USDA and TD Bank. RRMC successfully negotiated a covenant suspension agreement that weighs heavily on RRMC's ability to return to profitability and meet the covenant requirements by March 31, 2023.

Please feel free to call me if you have any questions or concerns regarding information relative to our 2022 performance and the binding budget process.

Sincerely,

A handwritten signature in blue ink that reads "Judi K. Fox". The signature is written in a cursive style with a large, looped initial "J".

Judi Fox
Interim CEO
Chief Financial Officer