

January 31, 2022

Mr. Patrick Rooney, Director of Health System Finances
Green Mountain Care Board
144 State Street
Montpelier, VT 05620

Dear Patrick,

The following narrative highlights the operating performance of Rutland Regional Medical Center for the fiscal year ended September 30, 2021.

Utilization

When our 2021 Budget was developed, we based it on the assumption that we would experience a continued decrease in volume from the COVID-10 pandemic resulting in an approximately 10% decrease. During Fiscal 2021, outpatient utilization recovered to pre-pandemic volumes much faster than we had anticipated, a large part of which relates to the resurgence of COVID and high demands for testing, urgent care services and infusion therapy. This resulted in our Fiscal 2021 Gross Patient Service Revenue (GPSR) being over budget by \$59.5 million or 10.3%. If we had not decreased our budget in 2021, we would have finished 2021 close to budget.

Routine revenue was over budget by \$1.1 million or 1.4%. Patient days were over by 502 and we experienced an average length of stay that was slightly above budget.

Inpatient ancillary service revenue was slightly over budget by \$316,000 or .25%. Services of note include:

Positive Variances:

Pharmacy	\$ 3,400,000
Diagnostic Imaging	\$ 1,900,000
Laboratory Services	\$ 2,200,000

Negative Variances:

Surgical Services	\$ 7,000,000	Transfer of services to outpatient, primarily orthopedics
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Outpatient ancillary service volume was over budget \$58.1 million or 15.7%. Services of note include:

Positive Variances:

Surgical Services	\$ 13,700,000	50% related to transfer of services from inpatient
Diagnostic Imaging	\$ 13,600,000	
Pharmacy	\$ 13,200,000	
COVID Testing	\$ 4,473,000	
Laboratory Services	\$ 1,627,000	
Clinics	\$ 5,700,000	
Vermont Orthopedic Clinic	\$ 4,600,000	
Oncology Services	\$ 2,700,000	

Negative Variances:

Endoscopy	\$ 1,700,000
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Net Patient Revenue

Fiscal 2021 net revenue was over budget \$28.5 million.

Most of the improvement, equivalent to \$20.3 million, relates to increased volume. This along with improvements in our overall payer mix, the adoption of the new revenue recognition accounting standard and our participation in the ACO, resulted in an improvement in our net to gross of 43.3% against a budget of 42.8%. Drivers of this improved reimbursement are noted below.

Bridges - FY 2021 Approved Budget to FY 2021 Actual Results

NPR/FPP	Total	% over/under
FY 21 Approved Budget	\$ 247,487,667	
Utilization	20,349,678	71.4%
Reimbursement/Payer Mix	1,677,427	5.9%
Bad Debt/Free Care	2,538,063	8.9%
Physician Acq/Trans	-	0.0%
Changes in Accounting	2,110,253	7.4%
Changes in DSH	(24,210)	-0.1%
Psych ICU & ADAP	605,767	2.1%
ACO Settlement	1,263,571	4.4%
FY 21 Actual Results	\$ 276,008,216	

Other Operating Revenue

For the year, Other Operating Revenue was over budget \$14.3 million or 68.4%.

In Fiscal 2021, RPMC recognized \$14.3 million in Federal and State relief funds as other operation income.

Provider Relief Funds (PRF)	\$	14,305,000
VAHHS Grant	\$	43,000
	\$	<u>14,348,000</u>

During Fiscal 2021, our 340B program generated \$11.2 million in other operation revenue, \$460k more than budgeted expectations. Numerous manufacturers have begun to exempt contract pharmacies from participating in the 340B program for certain drugs. RPMC is impacted by the issue and expects to lose more than \$3.0 million a year.

Operating Expenses

FY 2021 Operating Expenses were over budget \$37.6 million or 14.1%

Physician salary: Over budget \$2.9 million or 8.9%

- Contracts, call coverage, etc. \$ 1,410,000
- Compensation related to volume \$ 828,000
- Retention Plans \$ 662,000

Salary Other: Over budget \$7.9 million or 8.8%

- Differentials/Incentive Plans \$ 3,600,000
- Retention Payment – June 2021 \$ 2,500,000
- Unbudgeted COLA Expense \$ 1,800,000

Fringe Benefits: Over budget by \$6.9 million or 24.5%.

- Health Insurance \$ 2,200,000
- Defined Benefit Pension \$ 1,800,000
- Payroll Taxes (FICA, Pension etc.) \$ 1,700,000
- Workers Compensation \$ 1,200,000

Contract Staffing: Over budget by \$7.2 million or 434%.

All Other Operating Expense Variances:

- Pharmaceuticals \$ 5,600,000
- COVID Supplies \$ 2,800,000
- Supplies \$ 1,500,000
- Health Care Provider Tax \$ 1,300,000
- Purchased Services \$ 825,000

- Reference Lab – COVID test \$ 455,000
- Vaccine Clinic \$ 220,000

Bridges - FY 2021 Approved Budget to FY 2021 Actual Results

Expenses	Amount	% over/under
FY 21 Approved Budget	\$ 266,770,900	
Salaries	7,900,000	21.0%
Fringe Benefits	6,900,000	18.3%
Physician Contracts	3,000,000	8.0%
Contract Staffing	7,200,000	19.1%
Supplies	1,500,000	4.0%
Drugs	4,700,000	12.5%
COVID Supplies	2,800,000	7.4%
Vaccine Clinic	220,000	0.6%
Depreciation	(36,000)	-0.1%
Interest	(250,000)	-0.7%
Health Care Provider Tax	1,300,000	3.5%
Retail Pharmacy/340b Drugs	900,000	2.4%
Purchased Services	825,000	2.2%
Miscellaneous	200,934	0.5%
Reference Lab - Covid	455,000	1.2%
FY 21 Actual Results	\$ 304,385,834	

Non-Operating Revenue

Total dividends and market value adjustments resulted in gains of \$25.3 million. This was over budget by \$17.5 million.

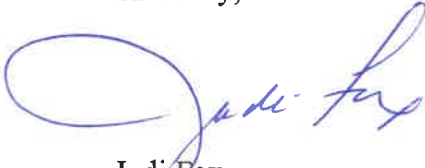
An additional \$3.3 million of Non-Operating Revenue resulted, in large part, from grant funding received in support of capital expenses related to the pandemic. Based on Generally Accepted Accounting Principals, this type of funding must be recorded within Net Assets and should not post as income to the Income Statement.

Operating Margin

RRMC's Operating Margin for Fiscal 2021 was 2.5% against a budget of .7%. Our ability to generate this margin was made possible with the receipt of \$14.3 million in COVID funding.

Please feel free to call me if you have any questions or concerns regarding information relative to our 2021 performance and the binding budget process.

Sincerely,

A handwritten signature in blue ink, appearing to read "Judi Fox". The signature is fluid and cursive, with a large loop at the beginning.

Judi Fox
Chief Financial Officer