Rutland Regional Medical Center
www.RRMC.org | 160 Allen Street, Rutland, VT | 802.775.7111

January 31, 2024

Alena Berube, Director of Health Systems Finances
Green Mountain Care Board
144 State Street
Montpelier, Vermont 05602

Dear Alena,

The following narrative summarizes the operating performance of Rutland Regional Medical Center for the fiscal year ended September 30, 2023.

Overview

In Fiscal Year 2023, Rutland Regional Medical Center embarked on a period of recovery, stabilization, and strategic financial restructuring. Following a challenging 2022 fiscal year marked by a $12M operational loss and a $41M reduction in non-operating revenue due to investment losses, the organization faced a breach of debt covenants, putting $43M of debt at risk for a potential bank call. Although we successfully negotiated a covenant suspension with our banking partner, the resolution incurred additional costs. Moreover, this breach raised concerns regarding our future ability to seek additional debt in support of the hospital's Mission and Vision.

Similar to other healthcare institutions in Vermont, RRMC contends with ongoing challenges in striking the delicate balance between delivering high-quality healthcare access and managing our cost structure, all while addressing concerns related to affordability. Over the past year, the hospital has undertaken substantial and impactful initiatives to curb cost escalation and to proactively address cultural, workforce, and safety considerations. Our primary focus remains on upholding the delivery of high-quality care within our community by strategically investing in physicians, advanced practice providers, nurses, staff, facility improvements and equipment that align with community needs and facilitate timely access to care.

While the established initiatives provide an opportunity for future improvement, workforce challenges (current open positions for non-MD staff = 161 and physicians = 14) and inflationary pressures continue to impact our financial performance leading into fiscal year 2024.

Utilization

Rutland Regional Medical Center's gross patient service revenue (GPSR) exceeded budgeted expectations by $48.5M (6.0%). Routine inpatient (room charges) revenue surpassed budget by $3.6M (3.35%), outpatient revenue by $24.5M (4.56%), and professional revenue by $23.0M (4.11%). However, inpatient ancillary service revenue fell below budgeted expectations by $2.6M (1.63%).

- ***Routine Inpatient Volume*** – patient days surpassed budget by 6.7%. However, it is important to emphasize that a persistent challenge exists for RRMC with patients in the hospital, referred to as "Level II Custodial Patients", awaiting placement in more suitable care facilities. These patients represented 8.7% of the annual patient day activity with minimal associated reimbursement and impacts RRMCs ability to accept acute care admissions. Please refer to the Net Patient Revenue section for information on how these patients contribute to the overall impact on net revenue.
- ***Routine Inpatient Ancillary Volume*** – fell short of budgeted expectations, primarily driven by lower than anticipated lab, respiratory therapy, and inpatient surgical service volume.
- ***Outpatient Volume*** – exceeded budgeted expectations, particularly in the areas of imaging and endoscopy as a response to reducing wait times. Furthermore, emergency room services surpassed budgeted estimates, which relates to a lack of access to primary care in our health service area.
- ***Professional Volume*** – Anesthesia, General Surgery, Cardiology, and Orthopedic professional services operated in excess of anticipated targets. In June of 2022, RRMC ended its agreement with an external third party and made the decision to employ professional anesthesia services. Drawing from the available revenue information at the time, which was used to inform the FY 2023 budget process, our estimates were moderate, resulting in actual revenue surpassing projections.

RRMC has been conscientiously engaged in identifying and addressing gaps that have led to notable improvements in access to care across multiple service areas. Those service lines include endoscopy, imaging, substance abuse treatment, orthopedics, and cardiology.

Net Patient Revenue & FPP

Rutland Regional Medical Center's net patient service revenue (NPSR) surpassed budgeted expectations by $11.1 million (3.5%). While this signifies an increase for FY 2023, it aligns with our FY 2023 projections submitted with our budget as well as aligns with the Board's aggregate growth guidance of 8.6% over FY 2022 Actual:

Rutland Regional Medical Center		
FY 2023 Actual NPSR/FPP	325,035,200	
FY 2022 Actual NPSR/FPP	305,366,707	
FY 2023 Increase Over FY 2022	**19,668,493**	**6.44%**
FY 2024 Budget NPSR/FPP	328,821,700	
FY 2023 Actual NPSR/FPP	325,035,200	
FY 2024 Budgeted Increase Over FY 2023	**3,786,500**	
Total Increase Over FY 2022	**23,454,993**	**7.68%**
FY 2023 Physician Transfer NPSR - Anesthesia	883,145	

- ***Utilization*** – as previously mentioned, RRMC has been ardently committed to identifying and rectifying wait times. As a result, we have achieved impactful progress within various service areas. This has resulted in increased utilization, which is the primary factor contributing to the favorability in net revenue.

- ***Reimbursement*** – with the implementation of a new insurance verification tool, we have been able to refine our denial management process, leading to improved compliance with prior authorization requirements.
- ***Payer Mix*** – in FY 2023, we experienced a shift in payer mix from commercial to Medicare Advantage, which resulted in a decrease in net revenue.
- ***Bad Debt/Free Care –*** Bad debt and free care increased proportionately with the increase in gross revenue, resulting in higher than budgeted write offs and an increase in free care support.
- ***Physician Transfer*** – as highlighted earlier, RRMC made the operational decision to transition its third-party professional Anesthesia services with a third party to an employed model. As a result of moderate projections, actual revenue surpassed initial projections.
- ***Level II Custodial Patients*** – the reimbursement impact of caring for our custodial patients awaiting placement was $2.95M for fiscal year 2023.
- ***ACO/FPP*** – for calendar year 2023, our attributed lives increased, resulting in higher than anticipated fixed prospective payments. Additionally, our calendar year 2022 OneCare risk settlement was favorable.
- ***State Psych Bed Cost Settlement*** – in an effort to meet state and community need for intensive psychiatric care, we have dedicated six of our twenty-four psychiatric beds to accommodate patients at this level of care. Reimbursement for these services is based on cost and settled at the end of each fiscal year.

NPR/FPP		Total	% over/under
FY 23 Approved Budget	$	313,970,338	
Utilization	$	14,730,097	4.7%
Reimbursement	$	613,759	0.2%
Payer Mix	$	(1,040,712)	-0.3%
Bad Debt/Free Care	$	(5,111,992)	-1.6%
Physician Acq/Trans	$	883,145	0.3%
Changes in Accounting	$	-	0.0%
Changes in DSH	$	(112,833)	0.0%
Level II Custodial Patient	$	(2,950,270)	-0.9%
ACO/FPP	$	3,446,816	1.1%
State Psych Bed - Cost Settlement	$	606,852	0.2%
FY 23 Actual Results	$	325,035,200	3.5%

<u>Other Operating Revenue</u>

Other operating revenue experienced an increase over budgeted expectations by $842K (4.1%). The increase in income is primarily attributed to the receipt of COVID-19 FEMA Grant funding that was utilized to offset supplies and staffing expenses.

Similar to other hospitals reliant on 340b funding, RRMC contends with the ongoing repercussions of the manufacturer's constraints and erosion of the program. In anticipation of continued revenue decline, we prudently reduced our 340b revenue during the FY 2023 budget process; however, our estimates proved slightly cautious, as our 340b revenue ultimately surpassed budgeted expectations by 2.3%.

Operating Expenses

Total operating expenses exceeded budgeted expectations by 4.0%. Noteworthy variances include the following:

- ***Unfavorable Variances***
  - Physician Contracts & Salary – unfavorable to budget due to provider vacancies and leaves of absence which necessitated continued reliance on locum and per diem providers. Additionally, due to an increase in education, hiring, and performance-based incentives, actual expenses surpassed expectation. This was a deliberate decision to incur this additional expense to preserve access to care.
  - Contract Staffing – unfavorable to budget, which is a result of our continued reliance on temporary nursing and ancillary technician labor.
  - Pharmaceutical Expenses – commensurate with the revenue and inflationary increases experienced in FY 2023, pharmaceutical expenses unfavorably exceeded budgeted expectations.
- ***Favorable Variances***
  - Salaries – as part of our cost saving initiatives and strategic financial restructuring aimed at stabilizing and recovering from the unfavorable performance of FY 2022, RRMCs Leadership made the decision to implement an FTE reduction plan in FY 2023, which extended into the FY 2024 budget process. This was partially offset by the need to fill staffing vacancies with contract labor.
  - Fringe Benefits – favorable to budget as a result of the reduction in FTEs as well as an audit reclassification of the terminated defined benefit pension expense to non-operating.
  - IT Expenses – negotiated contractual reductions and credits contributed to the favorability in expense as well as IT project deferrals to FY 2024.

Expenses	Amount	% over/under
FY 23 Approved Budget	$ 326,062,490	
Salaries	$ (1,015,350)	-0.3%
Fringe Benefits	$ (1,066,310)	-0.3%
Physician Contracts & Salary	$ 4,182,093	1.3%
Contract Staffing	$ 4,137,456	1.3%
Supplies	$ 1,344,541	0.4%
Drugs	$ 3,018,619	0.9%
Facilities	$ 419,444	0.1%
IT Related	$ (1,071,930)	-0.3%
Depreciation	$ 387,632	0.1%
Interest	$ 223,272	0.1%
Health Care Provider Tax	$ (229,425)	-0.1%
Reference Lab and Reagents	$ 1,206,113	0.4%
Insurance	$ (986,987)	-0.3%
Marketing	$ (380,037)	-0.1%
Other	$ 2,919,046	0.9%
FY 23 Actual Results	$ 339,150,667	4.0%

Operating Margin
Operating margin performance fell below budgeted expectations by 0.5% (Actual = 2.1% vs. Budget = 2.6%). The operating margin variance was driven by higher than anticipated expenses.

Non-Operating Revenue
Prior to January of 2006, RRMC provided a noncontributory defined benefit pension plan to eligible employees. In January of 2006, RRMC froze the defined benefit plan and enrolled eligible employees into a defined contribution plan. In June of 2022, RRMC approved the decision to terminate the defined benefit plan and in September of 2023, transferred the plan assets to an insurance company for annuitization. As a result of the transaction, RRMC recognized a significant loss; therefore, non-operating revenue performed far below budgeted expectations.

Debt Covenant Performance
Similar to other healthcare organizations, RRMC faced considerable challenges in meeting debt covenant obligations at the close of fiscal year 2022. This led to a shortfall in our debt service coverage bond covenant, necessitating the implementation of substantial improvement initiatives in FY 2023. Through the execution of these initiatives, RRMC was able to recover and ended the 2023 fiscal year in compliance with all covenants.

RRMCs debt covenants require a debt service coverage ratio of 1.4, days cash on hand in excess of 90 days, and a debt to capitalization percentage of less than 60%. At the close of FY 2023, RRMCs debt service coverage ratio reached 4.84, days cash on hand equated to 187.9 days, and debt to capitalization amount to 15%.

We remain available to answer any questions or inquiries you may have as it pertains to our fiscal year 2023 actual performance.

Sincerely,

J. Bertrand

Jennifer Bertrand
Chief Financial Officer

CC: Mr. Owen Foster, J.D., Chair – Green Mountain Care Board
Judi Fox, CEO – Rutland Regional Medical Center