SOUTHWESTERN VERMONT MEDICAL CENTER
Financial Summary
Fiscal Year ended September 30, 2022

Southwestern Vermont Medical Center (hereafter "SVMC" or "Medical Center" or "Hospital")

The loss from operations was $339,432 or a (0.2%) operating margin. Below is the comparative summary of fiscal year (hereafter "FY") 2022 actual financial results vs. FY 2022 budget.

Summary Financial Results

	FY 2021 Actual	**FY 2022 Budget**	**FY 2022 Actual**
Net patient service revenues	$145,319,528	$135,594,439	$154,884,054
Fixed prospective payments	31,018,104	42,000,000	31,845,094
Total net patient service revenues	*176,337,632*	*177,594,439*	*186,729,148*
Other COVID-19 relief funds			
Provider Relief Funds—HHS	4,507,693		
Other operating revenues	8,776,350	6,794,328	8,708,465
Total operating revenues	*189,621,675*	*184,388,767*	*195,437,613*
Operating expenses	*181,093,942*	*180,760,242*	*195,777,045*
Operating gain or (loss)	*8,527,733*	*3,626,525*	*(339,432)*
Non-operating activities-net	1,767,173	(49,235,000)	(51,659,159)
Excess revenues over expenses	***$10,294,906***	***$(45,606,475)***	***$(51,998,591)***
Operating margin	***4.5%***	***0.1%***	***(0.2)%***

When preparing the FY 2022 budget it was not clear to what extent the impact of COVID-19 (hereafter "COVID") would have on the Medical Center. Management in looking retrospectively at the FY 2022 revenue budget it was conservatively prepared. The FY 2022 budget did *not* include for a significant wave of COVID activity which drove much of the net patient service revenue (hereafter "NPSR") variance.

The impact of COVID was unclear to what extent it would have on operating expenses as well. In addition, the effects of the labor market issues, inflation, continued supply chain issues as well as others drove operating expenses to be over plan by more than $15 million in FY 2022 or an 8.3% negative variance. Labor markets became extremely competitive in FY 2022 as COVID volumes continued to rise. Wage increases were much higher than seen in decades and above plan. In order to stabilize staffing unbudgeted increases were provided. SVMC was fortunate not to have the need for a significant amount of traveler staff early in the fiscal year but the later part of the fiscal year it was necessary to hire contract staffing to fill vacant staff positions. The departure of several providers increased SVMC reliance on locum or agency providers. Greater COVID in the Bennington region than anticipated drove up testing costs as well as hospital costs to care for these patients.

Operating Revenues

In FY 2022, NPSR of $186,729,148 was $9,134,705 higher than budget or 5.5%. As described above the year has been one where no one could have predicted. Inpatient day volumes were 18.6% higher than budget primarily due to the increase of COVID cases driving the length of stay higher. Lack of long-term care staffed beds in the region kept patients in the acute care setting longer than necessary driving up costs at the Hospital. In addition, the lack of mental health resources have caused patients to remain in the acute care setting longer as well. The length of stay averaged 4.2 days compared to budgeted length of stay of 3.6 days. Pre-pandemic the length of stay was 3.4 days. The Medicare length of stay is over 27% higher than pre-pandemic levels contributing to higher staffing and other costs.

Emergency room volumes were 9% higher than plan for the year and picked up significantly over the last few months of the fiscal year. Outpatient imaging volumes including CT scan, MRI and Ultrasound were all significantly over plan for the year.

COVID related reimbursements for inpatient, treatment drugs and testing volumes were significantly higher than plan.

Denials from insurance carriers increased significantly during the year. Insurance companies retroactive denials and requests for more information have increased significantly. Actual denial write-offs have increased by nearly 50% in FY 2022. Management has had to hire additional staff to deal with the increased denial activity adding to the cost of care.

Bad Debt and Charity Care volumes were lower than management budgeted in FY 2022 by over $2.9 million.

SVMC benefited in FY 2022 from One Care shared savings from CY 2021 in the amount of approximately $643,000. These results were not known until late in FY 2022.

Payer Mix

Medicare and Medicaid revenues accounted for the majority of the positive NPSR variance in FY 2022. Medicare and Medicaid NPSR were over $10 million over budget or 11.8%. BX and commercial volume overall was above budget, lower realization of gross revenue was seen as a result of increased denials from BX and commercial payers.

Other Operating Revenue

Other operating revenues were over budget by approximately $1.9 million. The COVID vaccine and testing clinic generated approximately $346,040 of the positive variance. SVMC also received a $675,000 donation from the SVHC Foundation to support costs of staffing the reception desk and other functions instituted during the pandemic and Modernization project. The 340B Contract Pharmacy program revenue was approximately $340,000 over budget for the year.

Operating Expenses

Operating expenses of $195,777,045 were $15,016,803 over budget or 8.3%. As mentioned above there were many unknowns when the budget was developed.

The pandemic created many challenges not anticipated when the budget was developed. As volume increased staffing became a primary concern and SVMC needed to develop plans to address those concerns. Nurses were being recruited by agencies to be “traveling nurses” with offers of making nearly three times their current annual salaries. This resulted in higher than anticipated labor costs.

Salaries and wages, non MD, were over plan by over $5.1 million. Wage adjustments were higher than plan and pay incentives were necessary to maintain staffing levels to accommodate patient volumes and to retain staff. Also, contributing to the variance was the FTE variance of approximately 24 FTE’s. Approximately 8 additional FTE’s, funded by the Foundation to assist patients in the entry ways and an additional 8.9 FTE’s were required to staff the COVID Clinic provided for the community. The remaining overages were primarily in the inpatient clinical areas of the Hospital and the ED due to higher patient volumes than plan.

The other operating expense categories there were significant variances in the supply expenses, drugs and contract labor expenses:

- Supplies costs were over plan by nearly $3.4 million for the year with over $3 million related to COVID and the majority of that for supplies related to COVID testing and treatment which were unbudgeted.

- Pharmacy drugs were over plan by nearly $1.9 million due to higher costs and COVID related purchases.

- Contract labor in nursing and other clinical areas were over budget by over $1.3 million.

- Locum physicians in Oncology, Obstetrics and other specialties were over budget by nearly $1.3 million to cover physician vacancies.

<u>Non-Operating Revenues/Expenses</u>

In FY 2022 SVMC recorded the final termination entry for the Defined Benefit Pension program. All participants in the Plan were either paid their benefits accrued in the plan or annuities were purchased to provide the same level of benefit provided by the Plan. The recorded settlement charge of approximately $50 million was a non-cash item that had no effect on net assets.

<u>SVMC Balance Sheet changes</u>

There has been significant changes in SVMC's balance sheet when compared to FY 2022.

- Escrowed Bond Funds of $18 million were received in FY 2022 for the construction of the new Emergency Room project.

- Accounts receivables increased in absolute dollars mainly due to volumes as well as staffing shortages in the coding and billing departments and as a result of increasing delays and denials of commercial insurance claims.

- Long Term Debt increased from $8.8 million to $31.0 million as a result of the Bond issue to fund the ER construction project.

- COVID Medicare advances were fully paid and SVMC utilized its line of credit to maintain cash flows in FY 2022 amounting to $12.2 million.

- Eliminated the Defined Benefit Pension Liability and reduced administrative cost of nearly $700,000 per year.

Fiscal Year 2023 Financial Challenges

The three months of FY 2023 operating results was a loss of $1,926,146. Rising costs in almost all areas and continued use of traveling nurses and locum physicians has resulted in expenses being over $2.9 million over budget for the first three months.

Management has implemented a Financial Recovery Plan with the goal of reaching break even performance by the last quarter of FY 2023. The plan will require significant expense reductions from the current levels as well as revenue improvements to achieve the intended goal. Over 60 initiatives have been identified by management and each initiative is being carefully reviewed and implemented, if possible. In addition, services are being evaluated and may be reduced or eliminated to reduce losses being incurred.

While management is making progress toward our goal, over $5 million in approved initiatives so far, each day we encounter new challenges to our financial plan. One example is our natural gas contract for heating the hospital recently expired and renewal prices are an increase of over 130%.

Further detail information is available upon request and management urges the GMCB and staff of the GMCB to communicate their additional needs. Additional information can be requested from Stephen D. Majetich, CFO at 802.447.5011 or stephen.majetich@svhealthcare.org and James Roy, Controller at 802.447.5040 or james.roy@svhealthcare.org.

Respectfully submitted;

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