To: The Honorable Owen Foster, Chair, Green Mountain Care Board

From: Rick Vincent, Chief Financial Officer, University of Vermont Health Network

Date: January 31, 2024

Subject: Fiscal Year 2023 Actual-to-Budget Narrative

University of Vermont Medical Center

NPR	Total	% over/under
FY 2023 Approved Budget	$ 1,658,725,627	
Utilization	$ 121,231,384	7.3%
Reimbursement/Payer Mix	$ (75,216,459)	-4.5%
Bad Debt/Free Care	$ 33,344,250	2.0%
Changes in DSH	$ (11,826,485)	-0.7%
GME Reimbursement Change	$ 30,713,364	1.9%
Administrative Write-Offs	$ (17,955,898)	-1.1%
FY 2023 Actual Results	$ 1,739,015,783	4.8%

NPR, FPP & Health Reform Payments
$ Variance: $80.3M
% Variance: 4.8%

Inpatient, outpatient, and professional volumes all came in higher than budget. Inpatient census reached an all-time high in FY 2023 and remained high throughout the year. The Emergency Department also saw visit counts at levels not seen in over a decade. Operating Room surgical case volumes finished the year strong as well; increasing OR volumes was one of our access improvement focus areas.

Another main driver for NPR was due to the additional unbudgeted lump sum enhanced GME payment received in June, as well as the GME payment in September coming in higher than budget.

Additionally, we were approved for sole community hospital status, which was not budgeted, higher Medicare pass through and 340B payments.

A significant offset to the above favorability was due to the unfavorable gross payer mix, Medicaid ACO shared loss, unfavorable collection rate to budget, and an additional DSH payment that did not materialize compared to budget.

<u>Other Operating Revenue</u>
$ Variance: $26.8M
% Variance: 8.9%

The majority of the favorable variance was due to Specialty Pharmacy and Mail Order pharmacy generating a $21.6M positive variance, OCV contributions of $9.2M (entirely offset within expenses), and COVID-19 related FEMA funding of $5.3M. These were significantly offset by a reduction in our Contract 340B Pharmacy revenue due to drug manufacturers imposing restrictions on access to 340B pricing.

Expenses	Amount	% over/under
FY 2023 Approved Budget	$ 1,921,613,374	
Salaries	$ (25,993,750)	-1.4%
Contract Staffing	$ 43,567,119	2.3%
Fringe Benefits	$ 867,358	0.0%
Physician	$ (7,490,568)	-0.4%
Locum tenans (MDs)	$ 4,533,066	0.2%
Supplies	$ 10,288,637	0.5%
Drugs	$ 29,930,740	1.6%
Facilities	$ 37,620	0.0%
Software Related	$ 2,351,258	0.1%
Depreciation	$ 3,210,159	0.2%
Interest	$ (215,852)	0.0%
Health Care Provider Tax	$ (8,581,758)	-0.4%
Purchased Services	$ 13,057,959	0.7%
Other	$ 16,236,646	0.8%
	$ -	0.0%
FY 2023 Actual Results	$ 2,003,412,010	4.3%

<u>Staff Salaries</u>
$ Variance: ($17.6M)
% Variance: (2.6%)

UVM Medical Center saw its utilization of contracted travelers and their pay rate remain high due to continued workforce challenges and record high inpatient census. This contributed $43.6M to the unfavorable variance. The number of travelers exceeded 400 for two of the 12 months, ending the year at 370 in September. Average hourly rate peaked in November at $137 before ending the year at $102.

Staff and leadership stabilization and incentive payments along with increased premium pay due to the continued workforce challenges also contributed to the unfavorable variance.

Physician Salaries
$ Variance: $3.0M
% Variance: 1.3%

The UVM Health Network Medical Group had a significant number of vacancies, which drove the favorability. These were partially offset with the continued high utilization of locum tenens due to workforce shortages.

Fringe Benefits
$ Variance: ($867K)
% Variance: (0.4%)

The unfavorability was due to physician FICA. These were mostly offset by non-physician FICA, Non-physician fringe primarily driven by vacant APP positions and higher than budgeted contracted employees utilized to backfill vacant positions. Along with annuity forfeitures due to Fidelity plan merger.

All Other Operating Expenses
$ Variance: ($66.3M)
% Variance: (8.1%)

Med/Surg ($9.3M) supply expense was driven by supply chain reallocation of rebates and COVID-19 expired supply inventory.

Retail Pharmacy ($19M) expense overage is due to increased costs associated with manufacturers pulling out of 340B. Specialty volumes and Mail Order coming in higher than budget with the corresponding revenues flowing through Other revenue as mentioned above.

Pharmacy ($10.9M) expense was driven by favorable volumes in IP Pharmacy of 9.0%, as well as unbudgeted expensive CAR-T blood therapy treatments and an unfavorable rate within Nuclear Medicine.

Purchased Services ($13.1M) was driven by unbudgeted consulting expenses for ECG services on the Network bed management project and McKinsey expenses related to the utilization management/utilization review assessment. Additionally, the unbudgeted Home Health & Hospice McClure Miller Respite House support for patients they accepted without reimbursement, which created capacity at UVM Medical Center to accept more new patients. We also experienced higher than budgeted expenses within transplant surgery.

Other ($33.1M) expense unfavorability was driven by the receipt of additional GME payments, budgeted margin improvement initiatives that did not fully materialize, and Medical Group development expenses.

Provider Tax $8.6M favorability was due to an adjustment made in July after a reconciliation of our liability determined we were over accrued.

Insurance $3.1M expense favorability was driven by a reduction in cybersecurity insurance expenses due to the shift of being self-insured through VMCIC at a network level.

Miscellaneous items $7.4M expense favorability, mainly driven by lower Shared Service expenses within Finance Administration and Revenue Cycle.

<u>Net Operating Margin</u>
$ Variance: $25.2M
% Variance: 64.2%

The positive variance was caused by a combination of higher than budgeted NPR due to high volumes, additional enhanced GME payments, and sole community hospital status. Other revenue also played into our favorability due to Specialty and Mail Order Pharmacy, and COVID-19 related FEMA funding. The biggest expense offsets were related to the high volumes in Pharmacy, including Specialty Pharmacy and Mail Order.

<u>Non-Operating Revenue</u>
$ Variance: $38.4M
% Variance: 227%

Variance is primarily related to strong market performance with $34.8M coming from investment related lines.

<u>Total Margin</u>
$ Variance: $63.7M
% Variance: 113%

Positive total margin variance was driven by strong market performance within our investments that flow through non-operating revenue, along with a favorable operating margin as detailed above.

Central Vermont Medical Center

NPR	Total	% over/under
FY 2023 Approved Budget	$ 269,231,389	
Utilization	$ 9,068,077	3.4%
Reimbursement/Payer Mix	$ (17,135,149)	-6.4%
Bad Debt/Free Care	$ (2,624,256)	-1.0%
Changes in DSH	$ (1,782,577)	-0.7%
Administrative Write-Offs	$ (4,631,974)	-1.7%
		0.0%
FY 2023 Actual Results	$ 252,125,510	-6.4%

NPR, FPP & Health Reform Payments
$ Variance: ($17.1M)
% Variance: (6.4%)

The FY 2023 total NPR, FPP and OCV revenue was unfavorable by $17.1M or -6.4% when compared to the FY 2023 budget. Bad debt and charity care combined were unfavorable by $2.6M, due to legacy billing software clean up. Increased utilization was offset by unfavorable payer mix and collection rates, as well as an increase in payer denials. Disproportionate Share payments for FY 2023 received in September resulted in a $1.8M unfavorable impact to overall net revenues.

Other Operating Revenue
$ Variance: $2.7M
% Variance: 14.8%

Other revenue was over budget by $2.7M, primarily due FEMA funding for COVID-19 related travelers. $4.4M reimbursement from prior fiscal year offset by unfavorable variances in other contract pharmacy 340B revenue of $1.4M.

Expenses	Amount	% over/under
FY 2023 Approved Budget	$ 284,962,279	
Salaries	$ (6,241,855)	-2.2%
Contract Staffing	$ 13,774,006	4.8%
Fringe Benefits	$ (1,622,155)	-0.6%
Physician	$ 612,375	0.2%
Locum tenans (MDs)	$ 1,819,120	0.6%
Supplies	$ 879,713	0.3%
Drugs	$ (1,033,396)	-0.4%
Facilities	$ (268,781)	-0.1%
Software Related	$ (2,841,113)	-1.0%
Depreciation	$ (1,201,392)	-0.4%
Interest	$ 59,691	0.0%
Health Care Provider Tax	$ (1,344,715)	-0.5%
Purchased Services	$ 1,060,893	0.4%
Other	$ 2,703,911	0.9%
FY 2023 Actual Results	$ 291,318,581	2.2%

<u>Staff Salaries</u>
$ Variance: $6.2M
% Variance: 2.2%

Non-MD salaries were under budget by $6.2M or -2.2% in total. FTEs were lower than budget by 83.5.

<u>Fringe Benefits</u>
$ Variance: 1.6M
% Variance: 0.6%

Fringe benefits were under budget by $1.6M for the fiscal year due to FTEs being under budget.

<u>Physician Salaries</u>
$ Variance: ($0.6M)
% Variance: (0.2%)

Physician salaries were over budget by $0.6M or 0.2%; FTEs were higher than budget by 3.7.

<u>Contract Staffing</u>
$ Variance: ($13.8M)
%Variance: (4.8%)

CVMC had 93 traveler FTEs with an associated expense of $22M ($13.8M higher than budget) for an average cost per FTE of $236K, a 25% rate decrease from previous years. 39 of the 93 travelers were needed for bedside patient care at our Woodridge Nursing and Rehabilitation facility. The remaining travelers were used for inpatient and outpatient services at the hospital.

Non-Salary Expenses
$ Variance: ($2M)
% Variance: (1.8%)

Supplies were over budget and drug expenses were under budget by 0.3% and -0.4% respectively. Software expense was under budget by $2.8M, mostly due to a change in where the expenses are being reported, partially leading to an increase in the other expenses of $2.6M. Depreciation was under budget by $1.2M due to delayed capital spending. Heath care provider tax was $1.3M or 0.5% under budget due to less than budgeted NPR. Purchased services were over budget by $1M.

Net Operating Margin
$ Variance: ($20.7M)
% Variance: (721%)

Operating revenues were $5.3M unfavorable to budget, and operating expenses were $15.9M unfavorable driven by the factors mentioned above.

Non-Operating Revenue
$ Variance: ($9.8M)
% Variance: (180%)

Non-operating revenues were unfavorable to budget by $9.8M due to favorable investment returns, offset by required pension funding and other investment activity.

Total Margin
$ Variance: ($30.6M)
% Variance: (366%)

Operating revenues were $14.3M unfavorable to budget, operating expenses were $6.4M unfavorable, and non-operating revenues were unfavorable by $9.8M.

Porter Hospital

NPR	Total	% over/under
FY 2023 Approved Budget	$ 104,464,068	
Utilization	$ 9,724,820	9.3%
Reimbursement/Payer Mix	$ 51,539	0.0%
Bad Debt/Free Care	$ 2,639,133	2.5%
Changes in DSH	$ (3,712)	0.0%
Administrative Write-Offs	$ (1,411,473)	-1.4%
	$ -	0.0%
FY 2023 Actual Results	$ 115,464,374	10.5%

NPR, FPP & Health Reform Payments
$ Variance: $11.0M
% Variance: 10.5%

The FY 2023 NPR, FPP & Health Reform Payments revenue was favorable by $11.0M or 10.5% when compared to the FY 2023 budget, primarily due to above budget volumes in ED visits, lab tests and radiology procedures offset by below budget OR surgical cases and contract 340B pharmacy revenue. Bad debt and charity care are below budget with combined $2.6M or 2.5%, while Porter's administrative write-off (denial write-offs) in FY 2023 were unfavorable to budget by $1.4M or 1.4%. This unfavorable outcome is due to the higher than budgeted timely filing, lack of authorization, medical necessity denials in FY 2023 due to the final transition off the Meditech system (legacy system) to fully operate on the Epic system.

Other Operating Revenue
$ Variance: ($133K)
% Variance: (3%)

Other Operating Revenue was unfavorable to budget by $133K, primarily due to unfavorable Contract Pharmacy 340B revenue offset by a favorable variance in payer incentives.

Expenses	Amount	% over/under
FY 2023 Approved Budget	$ 102,735,157	
Salaries	$ (1,312,875)	-1.3%
Contract Staffing	$ 8,368,385	8.1%
Fringe Benefits	$ (1,905,548)	-1.9%
Physician	$ 168,473	0.2%
Locum tenans (MDs)	$ 218,386	0.2%
Supplies	$ 31,839	0.0%
Drugs	$ 791,384	0.8%
Facilities	$ 112,477	0.1%
Software Related	$ (1,509,465)	-1.5%
Depreciation	$ 59,900	0.1%
Interest	$ (7,308)	0.0%
Health Care Provider Tax	$ 21,450	0.0%
Purchased Services	$ 913,305	0.9%
Other	$ 2,038,803	2.0%
	$ -	0.0%
FY 2023 Actual Results	$ 110,724,362	7.8%

Salaries
$ Variance: $1.3M
% Variance: 1.3%

Porter's favorable salaries variance was due to below budget net staff salaries due to continued staffing shortages across all aspects of Porter, but primarily in the nursing areas. The underbudget expense was offset by contract staffing usage. See contract staffing below.

Fringe Benefits
$ Variance: $1.9M
% Variance: 1.9%

Fringe benefits were under budget due to FTEs being under budget. In addition, fringe benefits were below budget in retirement expense savings due to the use of accumulated forfeiture funds and below budget pension expenses.

Physicians and Locum Tenens
$ Variance: ($387K)
% Variance: (0.4%)

Physician costs were over budget due to use of locum services for our Hospitalist and providers in our practice group in order to keep access available during a period when we had an open Physician position. In addition, Porter incurred a higher than budget physicians salary expense for urgent need stipends to ensure adequate provider coverage.

Contract Staffing
$ Variance: ($8.4M)
% Variance: (8.1%)

Porter experienced a spike in both the rate and number of contracted travelers due to workforce challenges. This contributed $8.4M to the unfavorable expense variance. The number of travelers increased from a low of 37 FTEs in October 2022 to a high of 58.5 FTEs by June 2023 with eight months of the year with contracted travelers over 46 FTEs. Contracted travelers were notably in the areas of nursing, laboratory, and X-ray technicians.

Drugs
$ Variance: ($791K)
% Variance: (0.8%)

Pharmacy generated an unfavorable result directly correlated to volume increases as well as supply chain cost increases.

Depreciation
$ Variance: ($60K)
% Variance: (0.1%)

Depreciation expense was slightly unfavorable to budget due to the timing of capital expenditures.

Purchased Services
$ Variance: ($913K)
% Variance: (0.9%)

Purchased services are unfavorable to budget due to above budgeted ACO participation fees, IT expenses, clinical/medical equipment service contracts, and consulting services due to third party collection agency fees offset by the reduction in audit fees as these service expenses were provided by UVM Health Network offset (see Other Expenses below).

All Other Operating Expenses
$ Variance: ($2.0M)
%Variance: (2.0%)

Other operating expenses were unfavorable to budget due to overbudget Network Shared Services expenses of $1.4M, nutrition supplies of $132K and other individually immaterial variances in line items such as lease expenses, recruitment, insurance, and miscellaneous supplies.

Net Operating Margin
$ Variance: $2.9M
% Variance: 47%

Net operating margin performance was favorable to budgeted expectations driven primarily by revenue volumes (see more detailed analysis above) offset by increased contracted traveler costs.

Non-Operating Revenue
$ Variance: $3.1M
% Variance: 567%

Non-operating revenue was favorable to budget primarily due to favorable investment market returns.

Total Margin
$ Variance: $7.5M
% Variance: 111%

Total margin was above budgeted expectations due to the net of the favorable net operating revenues of $10.9M or 10%, unfavorable operating expenses of $8.0M or 8%, and unfavorable non-operating revenues of $3.1M or 567%.