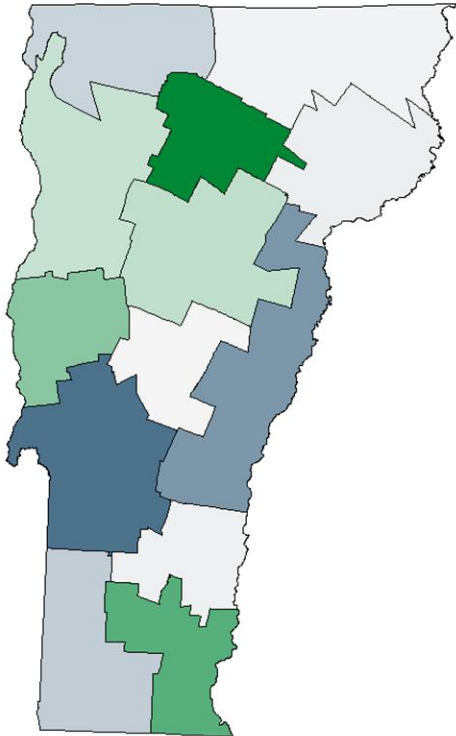


# Vermont Hospital Budgets

## FY 2016 Budget to Actual Reviews

March 2017



# Hospital Budget to Actual Reviews

## Background/history related to budget to actual performance reviews

- In June after completing FY 2015 budget reviews, GMCB staff began reviewing policy for hospital budget performance in June.
- Staff received input from VAHHS and hospital CFOs:
  - Hospitals want consistency of review and a focus on the overall hospital performance
  - Hospitals need to better understand how the Board defines “success”
- Staff presented the GMCB with updates on the discussions and proposals for change in the review procedures in December and February.
- Staff proposes a more comprehensive presentation of hospitals’ financial information that includes key benchmarks in addition to NPR.
- Physician acquisition policy was identified as needing to better align reporting with budget process.

# Hospital Budget to Actual Reviews

## Background/history related to budget to actual performance reviews

- Physician acquisition policy was updated and approved by the Board in December
- Staff prepared a series of schedules to reflect scope and approach to reviewing FY 2016 actuals
- Staff prepared a “Decision Dashboard” to highlight Key Performance Indicators (KPIs)
- Staff presented to the GMCB at its public meeting on February 16<sup>th</sup>
- Staff has collected updated schedules and information from hospitals
- An overview of hospitals’ budget review performance, based on FY 2016, is scheduled beginning March 30<sup>th</sup> (staff presentation); April 4<sup>th</sup> (hospitals under review) and April 13<sup>th</sup> (board discussion and possible vote)

# Hospital Budget Review Process

## GMCB Enforcement Policy Excerpt

The following language was taken from the Enforcement Policy adopted by the GMCB in 2013 for FY14-16. The full policy description is available on page 12 of the Hospital Budget Reporting Requirements at the following link:

[http://gmcboard.vermont.gov/sites/gmcb/files/files/hospital-budget/GMCB%20Hosp%20Bud%20Submission%20Rptng%20Req%20FY17%20with%20Phys%20Policy%201\\_1\\_17\\_WEB.pdf](http://gmcboard.vermont.gov/sites/gmcb/files/files/hospital-budget/GMCB%20Hosp%20Bud%20Submission%20Rptng%20Req%20FY17%20with%20Phys%20Policy%201_1_17_WEB.pdf)

### **Enforcement Mechanism**

- 1) Net patient revenue (NPR) amounts as ordered will be enforced.
- 2) The GMCB will review hospitals whose year-end NPRs exceed the NPR requirement by 0.5% above or below their approved NPR. Such a review will not necessarily lead to action by the GMCB.
- 3) Budget reviews will compare each outlier to results of the total system.
- 4) Reporting requirements for the review will be determined by the GMCB.
- 5) The GMCB will afford the hospital the opportunity for a hearing, and may require a hearing if it deems one necessary.
- 6) If the GMCB determines that a hospital's performance has differed substantially from its budget, the GMCB may take actions including but not limited to (*see* GMCB Rule 3.000, § 3.401(c)):
  - a) Reduce or increase in a hospital's rates;
  - b) Reduce or increase net revenue and/or expenditure levels in current year budget;
  - c) Use finding as a consideration to adjust the hospital's budget in a subsequent year or years; and
  - d) Establish full budget review of actual operations for that budget year.

# Physician Transfer Adjustment

## FY 2016 Actuals

Income Statement	FY-2014A	FY-2015A	FY-2016B	Physician Transfer during FY 2016	Approved FY 2016B w/Physician Transfer	FY-2016A	\$ Change FY-2016B w/Phys Transfer -FY-2016A higher/lower	% Change FY-2016B-FY-2016A higher/lower
<b>Revenues</b>								
Gross Patient Care Revenue	4,611,188,456	4,823,931,803	4,892,291,632		4,892,291,632	5,022,142,447	129,850,815	2.7%
Disproportionate Share Payments	37,262,752	37,420,325	35,340,159		35,340,159	37,106,878	1,766,719	5.0%
Bad Debt	(72,307,900)	(63,368,233)	(79,755,659)		(79,755,659)	(63,720,674)	16,034,985	-20.1%
Free Care	(43,261,680)	(35,384,897)	(45,838,756)		(45,838,756)	(34,941,876)	10,896,880	-23.8%
Deductions from Revenue	(2,393,706,295)	(2,514,328,693)	(2,524,556,330)		(2,524,556,330)	(2,612,379,958)	(87,823,628)	3.5%
<b>Net Patient Care Revenue</b>	<b>2,169,453,746</b>	<b>2,278,270,306</b>	<b>2,307,481,046</b>	<b>10,459,444</b>	<b>2,317,940,490</b>	<b>2,378,206,818</b>	<b>60,266,328</b>	<b>2.6%</b>
Other Operating Revenue	124,166,687	141,381,096	138,177,577		138,177,577	141,073,877	2,896,300	2.1%
<b>Total Operating Revenue</b>	<b>2,293,620,433</b>	<b>2,419,651,402</b>	<b>2,445,658,623</b>	<b>10,459,444</b>	<b>2,456,118,067</b>	<b>2,519,280,695</b>	<b>63,162,628</b>	<b>2.6%</b>
<b>Expenses</b>								
Salaries Non MD	731,072,297	766,891,215	791,878,294		791,878,294	808,126,826	16,248,531	2.1%
Fringe Benefits Non MD	229,842,155	241,203,540	253,961,083		253,961,083	238,549,900	(15,411,183)	-6.1%
Physician Fees Salaries Contracts & Fringes	296,786,352	307,353,637	311,698,104		311,698,104	326,192,560	14,494,456	4.7%
All Other Expenses	912,079,600	953,127,648	974,956,951		974,956,951	1,005,268,277	30,311,326	3.1%
<b>Total Operating Expense</b>	<b>2,208,636,610</b>	<b>2,309,283,512</b>	<b>2,376,018,120</b>	<b>8,458,259</b>	<b>2,384,476,379</b>	<b>2,419,805,495</b>	<b>35,329,115</b>	<b>1.5%</b>
<b>Net Operating Income (Loss)</b>	<b>84,983,822</b>	<b>110,367,890</b>	<b>69,640,503</b>	<b>2,001,185</b>	<b>71,641,688</b>	<b>99,475,201</b>	<b>27,833,513</b>	<b>38.9%</b>
Non-Operating Revenue	48,710,942	(20,910,214)	30,710,453		30,710,453	41,449,741	10,739,288	35.0%
<b>Excess (Deficit) of Revenue Over Exp.</b>	<b>133,694,764</b>	<b>89,457,676</b>	<b>100,350,956</b>	<b>2,001,185</b>	<b>102,352,141</b>	<b>140,924,941</b>	<b>38,572,801</b>	<b>37.7%</b>

# Enforcement Trigger

## FY 2016 Actuals

Vermont Community Hospitals  Net Patient Care Revenue 0.5% Enforcement Analysis	FY-2016		Physician Transfers		Percent Change Budget to Budget Including Phys Trans		FY-2016  Actuals	Amount Over/Under Budget  FY-2016B (w/Phys Trans) - FY-2016A	Percent Change Over/Under Budget  FY-2016B (w/ Phys Trans) - FY- 2016A	Allowed 0.5% Variance per GMCB Policy  FY-2016B - FY- 2016A	Amount Over/Under 0.5% Allowance  FY-2016B - FY- 2016A
	Budget 2016 Approved		During FY2016	Approved FY 2016 w/Phys Trans	FY-2015B - FY- 2016B						
Brattleboro Memorial Hospital	\$	73,896,151		\$ 73,896,151	3.7%	\$	73,164,810	\$ (731,341)	-1.0%	\$ (369,481)	\$ (361,860)
Central Vermont Medical Center	\$	173,996,286	\$ 1,402,035	\$ 175,398,321	5.5%	\$	191,539,946	\$ 16,141,625	9.2%	\$ 876,992	\$ 15,264,634
Copley Hospital	\$	60,987,719		\$ 60,987,719	2.3%	\$	62,804,324	\$ 1,816,605	3.0%	\$ 304,939	\$ 1,511,666
Gifford Medical Center	\$	56,201,733		\$ 56,201,733	-2.7%	\$	54,787,886	\$ (1,413,847)	-2.5%	\$ (281,009)	\$ (1,132,839)
Grace Cottage Hospital	\$	18,375,041		\$ 18,375,041	2.2%	\$	17,241,709	\$ (1,133,332)	-6.2%	\$ (91,875)	\$ (1,041,457)
Mt. Ascutney Hospital & Health Ctr	\$	48,060,871		\$ 48,060,871	-0.9%	\$	46,402,275	\$ (1,658,596)	-3.5%	\$ (240,304)	\$ (1,418,292)
North Country Hospital	\$	76,604,320		\$ 76,604,320	4.1%	\$	77,791,582	\$ 1,187,262	1.5%	\$ 383,022	\$ 804,240
Northeastern VT Regional Hospital	\$	68,095,300		\$ 68,095,300	4.2%	\$	71,586,551	\$ 3,491,251	5.1%	\$ 340,477	\$ 3,150,774
Northwestern Medical Center	\$	95,697,390	\$ 2,300,000	\$ 97,997,390	7.9%	\$	99,895,760	\$ 1,898,370	1.9%	\$ 489,987	\$ 1,408,383
Porter Medical Center	\$	75,581,081		\$ 75,581,081	4.0%	\$	75,061,496	\$ (519,585)	-0.7%	\$ (377,905)	\$ (141,680)
Rutland Regional Medical Center	\$	233,248,162	\$ 2,372,983	\$ 235,621,145	5.1%	\$	245,822,952	\$ 10,201,807	4.3%	\$ 1,178,106	\$ 9,023,701
Southwestern VT Medical Center	\$	144,025,568		\$ 144,025,568	3.6%	\$	151,922,754	\$ 7,897,186	5.5%	\$ 720,128	\$ 7,177,058
Springfield Hospital	\$	55,936,500		\$ 55,936,500	2.9%	\$	53,638,120	\$ (2,298,380)	-4.1%	\$ (279,683)	\$ (2,018,698)
The University of Vermont Medical Center	\$	1,126,774,924	\$ 4,384,426	\$ 1,131,159,350	4.0%	\$	1,156,546,653	\$ 25,387,303	2.2%	\$ 5,655,797	\$ 19,731,506
All Vermont Community Hospitals	\$	2,307,481,046	\$ 10,459,444	\$ 2,317,940,490	4.0%	\$	2,378,206,818	\$ 60,266,328	2.6%	\$ 8,309,189	\$ 51,957,139

# Explanation of Variances

## FY 2016 Actuals

All Vermont Community Hospitals				Over/Under Explained									
Income Statement	Approved FY 2016B w/Physician Transfer	FY-2016A	\$ Change FY-2016B w/Phys Transfer -FY-2016A higher/lower	% Chg FY-2016B w/Phys Transfer -FY-2016A higher/lower	Utilization (change in services)	Reimbursement/Payer Mix	Changes in Bad Debt/Free Care	Other Physician Revenue Transfers not Captured in Phys Trans Forms	Pharmacy	Change in Accounting for Employee Health Plan	Changes in DSH & provider tax	Other	Total of Explained Variance
<b>Revenues</b>													
Gross Patient Care Revenue	4,892,291,632	5,022,142,447	129,850,815										
Disproportionate Share Payments	35,340,159	37,106,878	1,766,719										
Bad Debt	(79,755,659)	(63,720,674)	16,034,985										
Free Care	(45,838,756)	(34,941,876)	10,896,880										
Deductions from Revenue	(2,524,556,330)	(2,612,379,958)	(87,823,628)										
Graduate Medical Education	30,000,000	30,000,000	0										
Net Patient Care Revenue	2,317,940,490	2,378,206,818	60,266,328	2.6%	33,541,952	882,939	25,587,263	3,692,825	7,570,034	(9,533,835)	1,918,914	(3,393,764)	60,266,328
Other Operating Revenue	138,177,577	141,073,877	2,896,300										
Total Operating Revenue	2,456,118,067	2,519,280,695	63,162,628										
<b>Expenses</b>													
Salaries Non MD	791,878,294	808,126,826	16,248,531										
Fringe Benefits Non MD	253,961,083	238,549,900	(15,411,183)										
Physician Fees Salaries Contracts & Fringes	311,698,104	326,192,560	14,494,456										
All Other Expenses	974,956,951	1,005,268,277	30,311,326										
Total Operating Expense	2,384,476,379	2,419,805,495	35,329,115	1.5%	26,088,650	-	258,888	1,153,198	8,034,479	(9,533,835)	746,428	8,581,307	35,329,115
Net Operating Income (Loss)	71,641,688	99,475,201	27,833,513										
Non-Operating Revenue	30,710,453	41,449,741	10,739,288										
Excess (Deficit) of Revenue Over Expense	102,352,141	140,924,941	38,572,801										

# Analysis of Payer Variance

## FY 2016 Actuals

What are the variances for each payer?

	Variance not including <u>Bad debt/free care</u>	Lower <u>Bad debt/free care</u>	Variance <u>under review</u>
Medicare	\$51,445,129	*	\$51,445,129
Medicaid	\$1,046,089	*	\$1,046,089
Commercial	<u>(\$19,156,755)</u>	<u>\$26,931,865</u>	<u>\$7,775,110</u>
Total	\$33,334,463	\$26,931,865	\$60,266,328

\* immaterial amounts

Expenditure changes (not available by payer) \$35,329,115



# Explanation of Variances

## FY 2016 Actuals

All Vermont Community Hospitals	Decision Dashboard						2017 Almanac of Hospital Financial and Operating Indicators (Optum)			US Not for Profit Hospital 2015 Medians (Moody's)		
	FY-2013A	FY-2014A	FY-2015A	FY-2016B	FY-2016A	FY-2017B	FY-2016A Vermont 25th Percentile	FY-2016A Vermont 50th Percentile	FY-2016A Vermont 75th Percentile	FY - 2015A Northeast Region	FY - 2015A Teaching Hospitals	FY - 2015A US Not for Profit
Net Patient Care Revenue	2,136,485,447	2,169,453,746	2,278,270,306	2,307,481,046	2,378,206,818	2,416,732,994						
Annual NPR Growth Rate	7.1%	1.5%	5.0%		4.4%		1.7%	4.9%	7.6%			
Three Year NPR CAGR (FY2014 - FY2016)					3.6%		2.8%	3.9%	4.8%			
Three Year NPR CAGR (FY2013 - FY2015)					4.5%		1.3%	4.0%	5.1%			
Operating Expense	2,166,619,102	2,208,636,610	2,309,283,512	2,376,018,120	2,419,805,495	2,490,598,806						
Annual OE Growth Rate	7.0%	1.9%	4.6%		4.8%		0.8%	4.8%	8.9%			
Three Year OE CAGR (FY14-FY16)					3.8%		2.5%	3.7%	5.0%			
Three Year OE CAGR (FY13-FY15)					4.5%		1.1%	3.6%	5.4%			5.5%
Operating Margin %	3.1%	3.7%	4.6%	2.8%	3.9%	2.8%	0.2%	1.4%	3.4%	0.5%	3.3%	3.4%
Total Margin %	6.2%	5.7%	3.7%	4.1%	5.5%	4.1%	2.0%	2.9%	6.1%	2.4%	4.2%	6.1%
Long Term Debt to Capitalization	32.8%	29.7%	27.6%	31.3%	30.5%	29.5%	20.5%	25.7%	30.3%	28.2%	35.3%	33.7%
Current Ratio	3.2	3.4	3.4	3.5	3.9	3.5	2.5	3.1	4.1	1.6	1.8	2.0
Debt Service Coverage Ratio	2.9	3.3	3.7	2.7	5.0	3.1	3.4	4.4	6.2	3.0	5.3	4.8
Capital Expenditures to Depreciation	82%	81%	97%	95%	102%	128%	73%	90%	110%			
Cost per Adjusted Admission	11,894	12,632	13,305	14,067	13,312	14,275	8,714	9,948	11,857			
Days Cash on Hand	161	176	179	180	183	166	99	135	199	113	116	212
Days Receivable	40	41	40	40	42	39	34	41	45	42	43	48
Days Payable	65	65	65	65	60	61	47	60	67	70	66	64
Age of Plant	9.6	10.2	11.4	11.9	11.8	12.3	10.6	11.9	13.1	12.3	11.2	11.0
Approved Weighted Average Rate Increase	7.9%	5.2%	6.8%	4.4%	4.4%	1.8%						

CAGR = Compounded Annual Growth Rate

# FY 2017 Current Year Reporting

## YTD through Feb (5 months)

Net Patient Care Revenue	"Expected"		Variance YTD	Last Year
	BUD 17 YTD	ACT 17 YTD	Over (under) Budget	At This Time
<b>SYSTEM</b>	\$ 999,799,129	\$ 994,540,416	-0.5%	1.1%
Brattleboro	\$ 31,610,138	\$ 30,836,418	-2.4%	-2.8%
Central Vermont	\$ 79,360,281	\$ 79,133,419	-0.3%	6.8%
Copley	\$ 27,101,353	\$ 28,207,608	4.1%	1.9%
Gifford	\$ 23,896,238	\$ 22,920,730	-4.1%	-2.6%
Grace Cottage	\$ 7,945,290	\$ 7,163,563	-9.8%	-11.5%
Mount Ascutney	\$ 19,751,917	\$ 19,182,545	-2.9%	-3.4%
North Country	\$ 33,588,052	\$ 32,098,733	-4.4%	-2.2%
Northeastern	\$ 29,513,012	\$ 30,934,755	4.8%	1.7%
Northwestern	\$ 42,170,757	\$ 41,797,998	-0.9%	3.1%
Porter	\$ 31,480,365	\$ 31,581,705	0.3%	-2.6%
Rutland Regional	\$ 100,700,637	\$ 101,152,660	0.4%	6.5%
Southwestern	\$ 63,032,058	\$ 60,959,445	-3.3%	5.5%
Springfield	\$ 24,469,133	\$ 21,609,545	-11.7%	1.7%
University of Vermont MC	\$ 485,179,898	\$ 486,961,292	0.4%	-0.4%

# Next Steps

- Tuesday, April 4 - Selected hospitals will testify on FY 2016 Actuals per the Board's request
- Thursday, April 6 – Board Meeting Canceled
- Thursday, April 13 – GMCB votes on hospital FY 2016 Actuals
- Note: Staff plans -- FY 2018 Reporting Requirements (Guidance) will be sent to the hospitals (ASAP after today's meeting )